

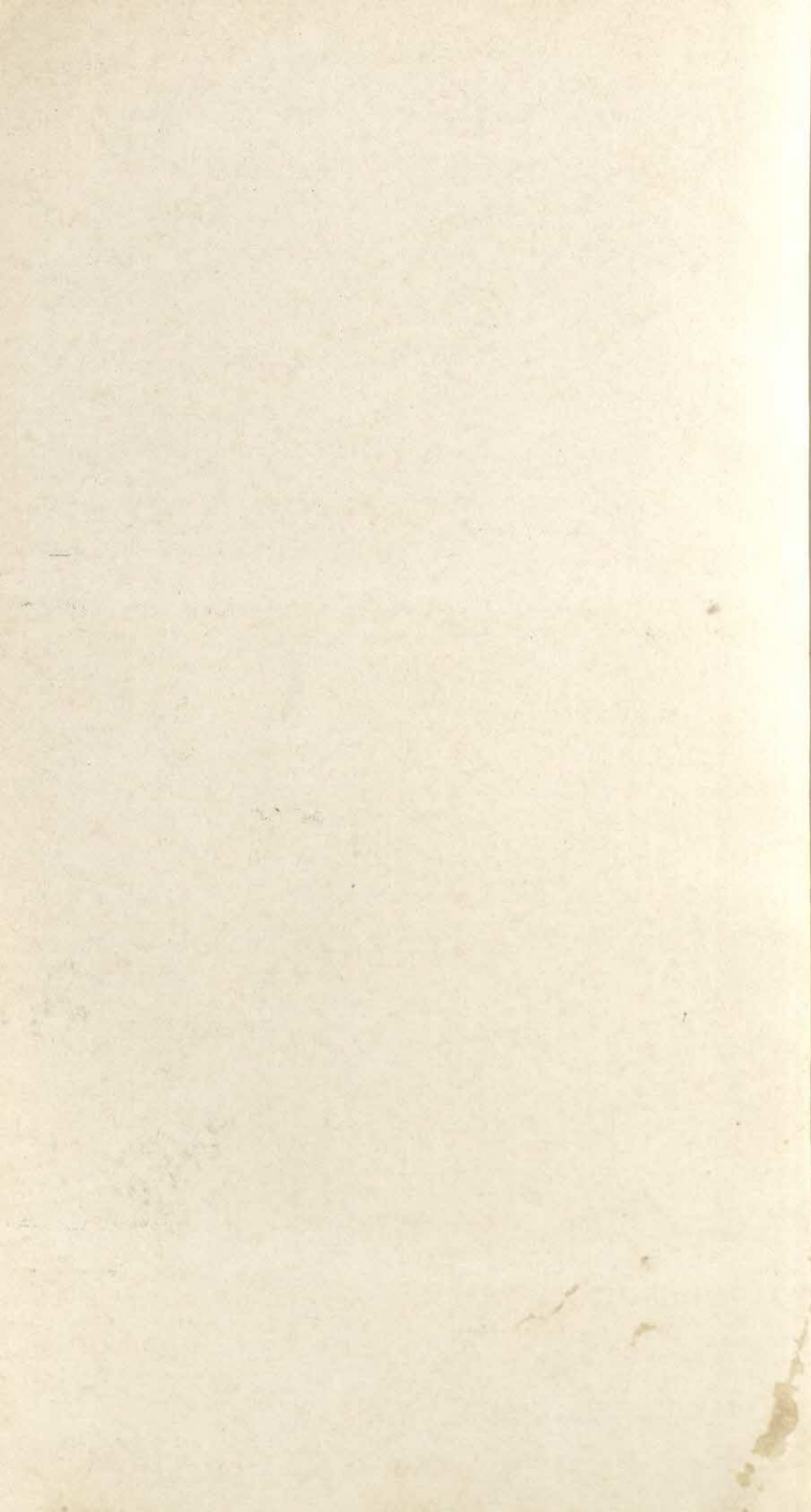
R. C. DUTT LECTURES
ON POLITICAL ECONOMY, 1990

C. T. KURIEN

**ON MARKETS
IN ECONOMIC
THEORY
AND POLICY**



CENTRE FOR STUDIES
IN SOCIAL SCIENCES, CALCUTTA



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MARKETS EXERCISE A CENTRAL POSITION IN BOTH ECONOMIC THEORY AND POLICY. In the realm of policy, we are currently passing through a phase where the economic situation is proving very problematic in our country and in many other parts of the world. Indeed, there are many who consider that the evidence that the market has failed, come to have in the last decade of the twentieth century will turn out to be a century-long debate on what the twentieth century and what during the new century the market will establish global order. Within the profession of economics a vast body of literature on markets has been built up over the past two centuries to which very significant contributions have been made in our own time.

I have not made any contribution to the theoretical discussion on markets. I have not had any share in policy formulation either. But as a student of what used to be called 'development economics', I have tried to understand the phenomenon of the market in the context of the evolution and transformation of economies. I have also watched the manner in which the market itself fits in the lives of people. During the course of these observations I have also noted that the language of discourse used by theorists and policy makers about markets and related phenomena is quite distinct. That, in itself, is not surprising. But if these differences are not properly appreciated, there is the danger that the discourse about markets may turn out to be misleading and misleading. I have an uneasy feeling that such indeed is the situation now. In these two lectures I shall try to spell out what I consider to be the confusion in the economic theory and policy in respect of markets. I believe the confusion exists because, although terms like market, competition and efficiency are used both by theorists and by policy makers, they are drawn from different universes.

LECTURE ONE

Market in Economic Theory

I

MARKET OCCUPIES a central position in both economic theory and policy. In the realm of policy, we are currently passing through a phase where the accent on markets is becoming very pronounced in our country and in many other parts of the world. Indeed, there are many who consider that the emphasis that the market has already come to have in the last decade of the twentieth century will turn out to be a mighty surge before we enter the twenty-first century and that during the new century the market will establish its global sway. Within the profession of economics a vast body of literature on markets has been built up over the past two centuries to which very significant contributions have been made in our own time.

I have not made any contribution to the theoretical discussions on markets. I have not had any share in policy formulation either. But as a student of what used to be called 'development economics', I have tried to understand the phenomenon of the market in the context of the evolution and transformation of economies. I have also watched the manner in which the market makes itself felt in the lives of people. During the course of these observations I have also noted that the language of discourse used by theorists and policy makers about markets and related phenomena is quite distinct. That, in itself, is not surprising. But if these differences are not properly appreciated, there is the danger that the discourse about markets may turn out to be misdirected and misleading. I have an uneasy feeling that such indeed is the situation now. In these two lectures I shall try to spell out what I consider to be the confusion in dialogue between theory and policy in respect of markets. I believe the confusion exists because, although terms like market, competition and efficiency are used both by theorists and by policy makers, they are drawn from different universes

of discourse, but this fact is not given the attention it deserves. Sometimes I feel that derivations from theoretical discourses are passed on to the realm of policy without putting them through a necessary process of 'translation'. If this is so, it can have dangerous consequences.

To clarify some of these issues is the limited objective of the two lectures. In the first lecture I shall pay special attention to markets in economic theory. In the second I shall turn to the sphere of policy.

II

In turning to markets in economic theory there is a problem that one confronts at the very outset: there are different languages of discourse within what may be broadly described as economic theory itself. I do not subscribe to the view that this is just an optical illusion and that if one is a genuine seeker one will finally arrive at the holy and catholic Economic Theory. There are different theoretical traditions in economics. I cannot see how it can be otherwise because economic theory is an attempt to describe and analyse that very complex and ever changing whatever it is that is designated as the 'economy'. These attempts have been made by different people at different times with different problems in mind. We gain valuable insights from these gropings, but each one is a representation of the economy with its own procedure of representation. In this sense any serious theory produces its own language of discourse. This is true not only about theories regarding society and economy but also about the physical universe. Physical scientists are not agreed as to what the universe is and what its characteristics are. I do not want to get distracted about this controversial issue.¹ I shall show, fairly soon, that economists, old and contemporary, have had very different perceptions about what the market is, how markets are formed, what consequences they have and so on.

There are very valid reasons for it too, not all of which I shall enter into here. But a couple of crucial ones must be touched upon. Amartya Sen has recently drawn our attention to two very broad traditions in economics which he refers to as the 'ethical' and 'engineering' traditions.² He traces the

ethics-related tradition to Socrates and Aristotle as also to Kautilya, for all of whom economic issues are related to the basic ethical question: 'How should one live?' If this question is taken seriously, economic issues cannot be separated from the quest for the good life, however it is defined; and in an operational sense economics gets involved with politics which, in the broadest sense, is the pursuit of the good life. Note that in this sense the crucial point is not to provide a check-list of ethical considerations on the basis of which economic issues can be evaluated and certified, but to insist that the broader question of purpose cannot be ignored in economic analysis. The 'engineering-related tradition', Sen points out, has come from several different directions, including—as it happens—being developed by some actual engineers, prominent among whom is, obviously, Leon Walras. The beginning of the engineering tradition marks a major breakthrough in economic science, and particularly in understanding some of the characteristics of markets. Because of its mathematical orientation, that tradition brought into economic analysis a sense of precision and emphasis on a variety of technical aspects. Presenting his mathematical treatise on the economy against the long tradition of literary works on the subject, Walras asked: 'Why should we persist in using everyday language to explain things in the most cumbersome and incorrect way, as Ricardo has often done and as John Stuart Mill does repeatedly in his *Principles of Political Economy*, when these same things can be stated far more succinctly, precisely and clearly in the language of mathematics?' A very pertinent question indeed! But the difference between the ethical tradition and the engineering tradition is not one of the language of expression in this sense. As Walras himself pointed out, and as I shall show subsequently, what he was doing was to carve out from a very large mass of material some selected issues for more detailed enquiry. Understood thus, there is no incompatibility between the ethical and engineering approaches. However, after the engineering tradition became fairly well established, the tendency has been to think of the two traditions as mutually exclusive, and even as antagonistic. This is an error and a pity. But in today's world we must accept it as a fact of life. And one of my objectives is to show that this unfortunate and untenable

position contributes a great deal to the confusion in thinking about how the theoretical discussions on markets can be related to policy problems involving markets.

The two broad traditions frequently, though not necessarily, find expression as the institutional and logical approaches respectively. I shall illustrate this with special reference to markets. For long the market was thought of as a human and social institution. Indeed it is one of the oldest institutions of human interaction. But in economic analysis the market also represents certain logical interconnections. Surely, these two aspects too are not mutually exclusive or incompatible, for the market must be considered *both* as a social institution *and* as embodying certain logical properties. And yet it is possible to approach it, expound it and interpret it either as primarily a social institution as Karl Polanyi did, or essentially as a logical construct as Leon Walras did. An institutional approach is likely to remain largely descriptive and anecdotal—the location where trade takes place, the buyers and sellers and intermediaries involved, the goods, the contracts, the medium etc.—unless it can be reinforced by what may be depicted as the logic of exchange. On the other hand, the logic and the mathematics of exchange do not begin to make sense as societal phenomena unless they are related to the institutional framework of the market. But it is easy to see that the two may pull in opposite directions. It can be seen also that when they do, the institutional approach will get identified with the ethical tradition and the logical approach with the engineering tradition, thus widening the gap between them further. This too is a pity, because before one can negotiate meaningfully between economic theory and economic policy it is necessary to grasp the thrusts of the different traditions and approaches within economics. This is no easy task and one should not make attempts at artificial syntheses.

What, then, is the alternative? I have reflected upon this question all through my professional career and I must confess that I have not satisfactorily resolved it. And yet I have arrived at a tentative position. In a way these two lectures are an effort to illustrate (just illustrate, not to explicate adequately) that position. But a preliminary statement may be helpful.

In these lectures I propose to go back and forth between the

ethics-related and engineering-related traditions (as well as the institutional and logical approaches), dialoguing with each. This is no pretence of neutrality. I have no hesitation in saying that if choices have to be made, I will stay within the ethical tradition and adhere to the institutional approach. Let me clarify, again, that by the ethical tradition I do not mean one that has preconceived criteria to evaluate all economic decisions and actions, but one which conducts the analysis in the context of the question: 'How should one live?' even when the answer to that question cannot be unambiguous on many specific issues. My view is that in the final analysis any serious study of social issues and of society, or of the economy as part of the study of society, is related to two basic queries: 'What is my responsibility to myself?' and 'What is my responsibility to my neighbour?', precisely because society (and economy) consists of myself and my neighbours and of our interactions. I cannot conduct an analysis of society ignoring myself or my neighbour. In fact, nowhere does this issue of my relationship with those around me get as pertinently and as closely posed as in the study of exchange and markets. Exchange has a logic; it can be expressed in mathematical terms. But essentially it is a form in which I relate myself to my neighbour and the market is the manifestation of that relationship.

There is a further reason for my preference for the ethics-related and institutional approach. They are the broader traditions within which the engineering and logical traditions have their legitimate place. The engineering-related tradition has a tendency to extricate itself from the moulds within which it exists and to become somewhat disembodied. Sometimes this is done as a necessary part of the process of abstraction; sometimes in the quest for elegance and precision *per se*. The former is unavoidable, because abstraction is a carving out process. The economy is something that is mentally carved out of society for analytical purposes, i.e. to concentrate on certain selected relationships in society, but not to deny the existence or significance of other kinds of relationships. Similarly, the engineering-related tradition is mentally carved out of the economy (as we shall see in the next lecture, Walras himself was very explicit about this procedure) to concentrate on a subset of relations within the economy. This is a legitimate and fruitful

procedure up to a point. The problem arises when concentration on that procedure leads the analyst to affirm that only the relations that he has selected are important (in an absolute sense) and all other relations are to be ignored as less significant, or even non-existent. I shall soon try to show that the engineering-related tradition has often gone to that extent and that a great deal of confusion in economics, especially in respect to markets, has been caused by the deliberate or inadvertent attempt of that tradition to become self-contained by taking itself out of its larger social context.

My personal convictions, however, are not the only reasons why I rely on the broader ethics-related and institutional approach in the enquiry about markets. I believe a proper dialogue with policy matters calls for such an approach. A moment of reflection will show that policy is firmly rooted in the question: 'How should one live?' Policy reminds me (even when theory fails to do so) about my obligations to myself and my neighbours. (If in doubt, think about the income tax!) The basic question: 'How should one live?' may get greatly distorted in its explication by policy (particularly in identifying the 'one'), but policy cannot get away from the fact that it is directly related to social problems, and that it is also geared to goals—in the final analysis a good life for all, for me and for my neighbours. In this sense policy is a better reflection of social reality than theory is, and for good reasons too. Policy does not have the option that theory exercises in large measure of making assumptions for convenience. To put it differently, while theory has the facility to make abstractions from reality, policy cannot abstract away from reality. It must deal with issues and problems 'as is, where is'.

I do not want to be misunderstood as trying to drive a wedge between theory and policy. Far from it. For, to deal with issues 'as is, where is', one still needs to understand them. And precisely because issues cannot be removed from their context for laboratory testing and clinical probing, the only way to understand them is to isolate them and cleanse them as far as possible through the mental exercise of abstraction. And that is what social theory is in its basic sense, and its role is, as Hicks has stated, to be the handmaid of policy.³ What I propose to do in these two lectures on markets is, therefore, to give

primacy to policy, i.e. the actual social interaction between me and my neighbour through the market and to see to what extent theory enables me to understand it and guide it towards a better life for us. In that attempt I shall also examine why theory often clutters, rather than cleanses, the analysis of practical problems. I shall also try to point out how pernicious it is to prescribe conclusions derived from theoretical constructs as policy measures to tackle practical problems if it is done without going through the process of 'translation' already referred to.

III

In the rest of this first lecture I shall review the manner in which four authors have dealt with the phenomenon of markets. The choice of the four has been dictated largely by the need to document the plurality of approaches within economics to that phenomenon. The four authors chosen are Adam Smith, Karl Marx, John Hicks, Karl Polanyi. The treatment of the issues of the authors and the procedures they have adopted will have to be brief and somewhat terse. There is a fifth author, Leon Walras, whose account of markets I shall take up in the second lecture, for reasons which I shall indicate there.

Adam Smith, it will be recalled, was writing against the background of the many restrictions on trade and markets that were the distinguishing features of both feudalism and mercantilism. The restrictions, therefore, existed at different levels—at the local level by guilds, for instance, and at the national level by the government. He found that these restrictions acted as a barrier to the expansion of production by inhibiting the division of labour. Hence his argument was that production can increase only by removing these fetters and by permitting division of labour to find expression as much as possible. The plea for markets was, thus, in the interest of production and of the producers; they were the ones who would create the markets, and not the consumers, who by revealing their preferences to producers through prices indicate to them new possibilities. As Sylos-Labani has pointed out, Smith's concern was mainly about barriers to new com-

petition which acted as a big constraint on production.⁴ And what he was asking for was the right to enter and compete whereby market conditions could be and would be greatly altered, including, among other things, bringing about a reduction in the price level which would be beneficial to all, particularly the working class. For Smith, therefore, competition was not what it has come to mean in much of market theory more recently where it implies the *inability* of any participant to influence prevailing market conditions.

Another aspect that needs to be clarified is what exchange is based upon in Adam Smith's treatment. On this the usual view is that according to Smith the basis of exchange is self-interest, which, in later years, has come to be considered as synonymous with rationality and, thus, the cornerstone of all economic analysis. It, therefore, needs a more detailed examination. There are, of course, passages in the *Wealth of Nations* that can be used to support this view. The most frequently invoked of these is the well-known one about the butcher, the brewer and the baker: 'It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our necessities but of their advantage.'⁵ The passage seems to prove beyond doubt the centrality of self-love. However, a reading of some of the sentences just preceding this passage will show the context in which the nature of self-love has to be interpreted. 'In civilised society', says Adam Smith, 'he [man] stands at all times in need of co-operation and assistance of great multitudes . . . In almost every other race of animals each individual, when it is grown up to maturity, is entirely independent, and in its natural state has occasion for the assistance of no other living creature. But man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only.'⁶ These sentences show that 'self-love' in the *Wealth of Nations* is not 'each one to himself', as modern market enthusiasts frequently make it out to be. According to Smith, that is the law of life in the animal kingdom, but not among human beings who can live only in co-operation with their brethren. That is, human beings have an obligation to themselves and to their neigh-

bours. If there is any doubt on this score, a reading of Smith's *Theory of Moral Sentiments* will dispel it. The opening sentences of *Moral Sentiments*, in the chapter titled 'Of sympathy', are: 'How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the future of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it. Of this kind is pity or compassion, the emotion which we feel for the misery of others when we either see it, or are made to conceive it in a very lively manner.'⁷ Once again, it is clear that self-love is not the only motivation Smith recognizes. And Smith does not make self-love the basis of society or economy and is quite explicit on what he considers to be the foundation of society. 'Society may subsist', he says, 'though not in the most comfortable state, without beneficence, but the prevalence of injustice must utterly destroy it . . . [beneficence] is the ornament which embellishes, not the foundation that supports the building . . . Justice, on the contrary, is the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society . . . must in a moment crumble into atoms.'⁸ Not only is justice the foundation of society, the desire for justice is innate to human nature, says Smith. 'In order to inforce the observation of justice, therefore, Nature has implanted in the human breast the consciousness of ill deserts, those terrors of merited punishment which attend upon its isolation, as the great safeguards of the association of mankind, to protect the weak, to curb the insolent and to chastise the guilty.' Many more passages of a similar kind can be seen throughout *Moral Sentiments*. If these are taken seriously, we may say that Adam Smith's position is that the exercise of self-love must be seen within the context of a kind of social relationship built on justice which includes protecting the weak and chastising the guilty. The reference to self-love, in contrast to benevolence, in the context of exchange should be thought of as Smith's way of telling the meddlesome do-gooders of those days that people can be trusted to take care of themselves. In any case, if self-love is innate to human nature (my obligation to myself), so is the desire for justice (my obligation to my neighbour).

Whether exchange requires self-interest as its basis was

picked up by Philip Wicksteed more than a century after Adam Smith. Using common sense as the main tool to unravel the mysteries of political economy, Wicksteed considers a housewife who goes to the market and bargains with every seller before she makes a purchase. This can be thought of as an exercise of the economic motive of self-interest, and an attempt to maximize it. But what if the real motivation behind it is to be able to give some money away as charity? Is her bargaining an expression of self-love or of altruism? Wicksteed enters into a long discussion as to whether it is necessary to concentrate exclusively on 'economic motives' to the exclusion of all others to understand exchange and markets and comes to the conclusion that 'there seems little sense in using the term "economic motive" at all; for the whole conception appears to be a false category.'⁹ As for the rationale behind exchange, Wicksteed sees it somewhat differently. 'We get at our own purposes through a network of exchanges in which we are doing the things others want done, in order that we may get others to do what we ourselves want done',¹⁰ implying that if self-interest is an ingredient in exchange, so is the thought about others—we can get what we want only by doing what others want, so to say. In simple terms, then, exchange and markets are expressions of our mutuality and interdependence, just as much as they become means of our independence too. However, exchange has an element of exclusion built into it, not because of human nature, but because of the nature of exchange itself. When a business man enters into a bargain, he is exactly in the position of a man who is playing a game of chess or cricket, says Wicksteed. He is considering nothing except his game (if he is an earnest player, that is). And it would be absurd to call a man selfish for protecting his king in a game of chess, or to say that he was actuated by purely egoistic motives in so doing. Similarly, a cricketer cannot be considered to be egoistic if he concentrates on taking runs. That is what the game calls for. There is this kind of 'self-interest' in exchange too. But that does not mean that the economic relation of exchange 'excludes from my mind everyone but me; it patently includes everyone but you'.¹¹ If so, the specific characteristic of exchange is not egoism, but 'non-tuism', says Wicksteed.

This is important. It points to two aspects simultaneously.

The first is that if exchange is a social institution, then any attempt to provide a purely individualistic basis to it is rather far-fetched. Secondly, a crucial aspect of exchange as an activity is the exclusion that it implies ('non-tuism' or 'except you'), which arises from what exchange is, that is, from other identifiable attributes of exchange. Today we recognize it as the 'exclusion principle' which can be related to appropriation, another plank on which exchange rests. This will become clearer in the discussion a little later.

IV

The social framework of exchange that is implicit in Adam Smith is made explicit by Karl Marx. Marx finds the basis of exchange in the fact that the social division of labour causes a person's labour to be as one-sided as his wants are many-sided. But Marx does not link exchange directly and immediately with division of labour because he recognizes that division of labour exists prior to exchange within the family caused by differences of sex and age, which can also be seen among other natural communities such as tribes. While these communities have their internal organizations for production and criteria for distribution, they have no exchange *within* them. Exchange of products springs up at the point where different families, tribes, communities come in contact. 'Different communities find different means of production and different means of subsistence in their natural environment. Hence, their modes of production, and of living, and their products are different. It is this spontaneously developed difference which, when different communities come in contact, calls forth the mutual exchange of products, and the consequent gradual conversion of these products into commodities. Exchange does not create the differences between the spheres of production, but brings what are already different into relation, and thus converts them into more or less interdependent branches of the collective production of an enlarged society.'¹² Several comments are in order about this passage. First, exchange is not based on the individual's propensity to truck and barter, as Adam Smith had indicated, but arises from an already existing social context. Second, that social context is already one of

social division of labour which, however, is not facilitated or mediated through exchange. The internal structure of social units of that kind attends to the organization of production and determines the pattern of distribution. There are, therefore, pre-exchange arrangements for transfer of goods, and exchange as a further arrangement for the transfer or transactions of goods emerges in such a context. Third, specialization in production is not caused by exchange; rather exchange links producing units, each with its own organization of production, into a network of interdependence and in that sense to a larger social framework.

This account of the origins of exchange is important not merely in a historical sense. The phenomenon that Marx describes is of contemporary significance too, because in many parts of the world, including our own country, what is currently going on is the *formation* of markets, the process of markets being formed. There is no reason to think that the characteristics of the market used as a noun and its characteristics in its formative process—the process of ‘marketization’, that is—will be the same. I feel that one source of confusion in the approach to the market phenomenon is the failure to grasp this difference. I shall take up this theme for more detailed discussion in the second lecture.

Marx, certainly, was aware of this distinction because, as is well known, one of his major contributions has been about the metamorphosis of exchange itself from the rudimentary C-C form to the C-M-C form and the M-C-M form. One cannot treat exchange simply as exchange or markets, for they take distinctly different forms with not only different social consequences as Marx would insist, but even in terms of their logical characteristics. For instance, in its most elementary form, C-C or barter exchange is a process of use-values changing places and hands and is ‘extinguished’ when that transaction between two commodities and two parties is over. Also such exchange can take place only when there is a double coincidence of wants, and in that sense it is extremely restrictive. Further, it is a case where it is impossible to distinguish between buyer and seller because each party in the exchange is simultaneously a buyer and a seller. It is important to bring out these characteristics of *a* form of exchange because the

modern mind is much more attuned to the characteristics of another form of exchange, viz. generalized exchange. It is not possible to dismiss barter as a primitive and outdated form of exchange either. It manifests itself in many instances—especially between countries. That apart, it can be argued that the model of bilateral monopoly is a better approximation to what goes on in the real world than the model of perfect competition on which, however, most ardent supporters of the market base their case. Here again, I anticipate what is to come in the second lecture. So, let us move on.

Marx, then, moves on to the C-M-C form of exchange, recognizing that where exchange comes to be mediated through money it 'breaks through all local and personal bonds inseparable from direct barter . . . and develops a whole network of social relations spontaneous in their growth and entirely beyond the control of the actors . . . The process of circulation, therefore, does not, like direct barter of products, become extinguished upon the use-values changing places and hands. The money does not vanish on dropping out of the circuit of the metamorphosis of a given commodity. It is constantly being precipitated into new places in the arena of circulation vacated by other commodities . . . Circulation sweats money from every pore.'¹³ In sum, 'circulation bursts through all restrictions as to time, place and individuals, imposed by direct barter, and this it effects by splitting up into the antithesis of a sale and a purchase, the direct identity that in barter does exist between the alienation of one's own and the acquisition of some other man's product.'¹⁴

So, the generalization of exchange is not a 'given', it is something that comes about as a result of some conditions, and with consequences.

There is no doubt that the distinction between barter and generalized exchange will be widely accepted in terms of their practical manifestations, although it is doubtful whether the analytical implications of exchange without and with money have been adequately recognized. But Marx would go a step further and show that even exchange using money as a medium (hence generalized exchange) is not all alike; a further distinction will have to be made between C-M-C and M-C-M forms of exchange, both forms of exchange mediated through

money. The M-C-M exchange implies three things, all of which are analytically and practically significant. The first is that while the C-M-C form of exchange is still a quest for use-value (the search for a good to which the exchanger attaches higher use-value than the one he is willing to give away), the M-C-M form of exchange is a quest for money as such. The party concerned starts with money, purchases a commodity, sells it and gets back money again. This, certainly, is not the activity of someone whose primary interest is in goods (i.e. a 'consumer'), but one who specializes in exchange—a trader or a merchant. It means that when exchange gets generalized it also gives rise to a new functionary in society who intervenes in trade and markets in a variety of ways. Everybody recognizes the presence of traders in an economy and society which functions on the basis of exchange, but some theories of market—surprisingly theories that depict the characteristics of generalized exchange—do not recognize traders at all, and treat exchange as a direct transaction between consumers and producers. This, again, is an issue that will have to be taken up for further scrutiny subsequently.

The second point that Marx brings out is that the M-C-M form of exchange is not only the quest for money, but the quest for *incremental* money, ΔM . It would be absurd to say that a merchant goes into trade simply to keep his money intact. The second M, or M', must be larger than the first M. The merchant is not merely after exchange value; he is after more and more of it, after more and more surplus value which becomes his capital. When this happens the market ceases to be a mere interaction between consumers and producers, or between producers and producers, or between buyers and sellers; it turns out to be the domain of merchant capital. This is a major transformation of exchange and the whole complexion of trade and markets changes as a consequence.

The third aspect that Marx deals with is even more pertinent. Those who are eager to accumulate capital, and capital accumulation in general, can succeed in the final analysis only when the C in the M-C-M form of exchange is labour power. For all other Cs are inert and cannot *generate* value and yield surplus value. Labour power generates value not only adequate to maintain itself, but more than that. Hence anyone who

purchases labour power and uses it (in production) can appropriate that surplus and accumulate it. That is what *capitalist* production does. Because capitalist production is based on converting labour power into a commodity in the production of other commodities and because the capitalist can realize the surplus value only when the produced commodities are sold, the exchange processes turn out to be more under the dominion of capital than when only merchant capital is in action. Markets, thus, become a major part of the overall and interconnected apparatus for the realization of surplus value via the transaction of commodities.

But Marx knows that these processes will lie hidden beneath an appearance of markets as the manifestations of equality and freedom. Yes, exchange does represent a sense of equality between the two parties in the sense that they are both exchangers—two owners confronting one another, each searching for advantage to himself. And, in this sense, the exchange relationship is unlike all that preceded it—the master-slave relationship, the lord-servant relationship etc. 'Individual A exists as the owner of a use value for B, and B as the owner of a use value for A. In this respect, their natural difference again puts them reciprocally into the relation of equality.'¹⁵ There is freedom too. 'Although individual A feels the need for the commodity of individual B, he does not appropriate it by force, nor vice versa; but rather they recognize one another reciprocally as proprietors, as persons whose will penetrates their commodities . . . No one seizes hold of another's property by force. Each divests himself of his property voluntarily. But this is not all: individual A serves the need of individual B by means of commodity *a* only in so far as and because individual B serves the need of individual A by means of commodity *b*, and vice versa. Each serves the other in order to serve himself; each makes use of the other, reciprocally, as his means.'¹⁶ Perhaps, in its most rudimentary form as barter, these noble claims could be made about exchange. But Marx's contention is that exchange will not remain in that form, and that the 'presupposition of exchange value, as the objective basis of the whole system of production, already in itself implies compulsion over the individual, since his immediate product is not a product for him, but only becomes such in the social process, and since

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it *must* take on this general but nevertheless external form; ... therefore this presupposition by no means arises either out of the individual's will or out of the immediate nature of the individual, but it is rather *historical*, and posits the individual as already *determined* by society.¹⁷ If society has already decided that I can live only by selling what I produce and buying what I need, am I really free? That is a question to be considered by those who claim that markets make one free to choose!

V

I shall now take up two more accounts of markets, those of John Hicks and Karl Polanyi. At a time when most economists of what may be broadly described as the Anglo-American school were of the view that 'In the beginning there were markets', Hicks made an approach to markets in terms of their historical evolution. 'There is a transformation antecedent to Marx's Rise of Capitalism', says Hicks, 'and which in terms of more recent economies looks like being even more fundamental. This is the Rise of the Market, the Rise of the Exchange Economy.'¹⁸ The history of the rise of markets is important because for many countries it is a contemporary phenomenon.

Like Marx, Hicks also envisages a pre-market socio-economic set up which is a mixture of the 'belowness' of a customary economy and the 'aboveness' of a command economy. The former refers to the customary horizontal or mutual set of obligations and claims. But when this pattern is disturbed the command element comes into effect, a major manifestation of which is a vertical transfer of goods and services from below to the authority above. This authority could be a military power, or a civil government with a bureaucracy to run it. Whatever it is, Hicks designates it as the Revenue Economy. A Revenue Economy not only precedes the market, it also services the market. In other words, the market as an institution with its horizontal characteristics is integrally related to an authority 'above'. Very significantly Hicks points out: 'The growth of the Public Sector in our day is a massive swing-back to the Revenue Economy.'¹⁹ The market and the state are interrelated institutions in a functioning economy.

The customary economy has productive activity, particu-

larly agriculture and crafts; it also has government. What it does not have is trade. Even after isolated instances of trade begin to appear, there are no specialists in trade; and according to Hicks it is specialization in trade that marks the new beginning. For specialization in trade to arise two conditions must be satisfied: protection of property and protection of contracts. The customary economy may have some vague notions of ownership, but not the concept of *exclusive* ownership which permits a person to alienate that which he owns. But for the activity of the specialists in trade—the merchants—this is crucial. 'When he sells an article he must be able to assure the buyer that the thing is his to sell; he must be able to prove his property in it, if he is challenged.'²⁰ The need to protect contracts is equally important. Even the simplest of exchange is a species of contract; each of the parties is abandoning rights over the things he sells and anticipating rights over things he buys. There are three stages in such an exchange process: the agreement (at the end of bargaining or negotiations), the delivery one way and the delivery the other way. Hence each act of exchange is a promise to deliver, immediately or with a lag. There is, therefore, need to assure that promises will be kept. If trade requires exclusive proprietary rights and the protection of contracts, every act of exchange requires a third party behind it, an authority that guarantees the preconditions of exchange. Both parties will be willing to accept this authority because exchange, when it takes place, is to the advantage of both, which Hicks refers to as the Principle of All-round Advantage. The tendency for trade to spread is based on this principle and the discovery of the principle by more and more potential parties. This will be further stimulated by the merchants who may convert some of their stock into new commodities, thereby opening new markets and channels of trade.

Hicks traces this process of spread of the market economy which may also be described as the Mercantile Economy. What will be its impact on agriculture, the primary activity in the customary economy? Here the smooth spread of the market meets with resistance or at least generates friction. 'Market, as a form of organisation, is the creation of traders and subsequently of financiers, not (or not at all to the same extent) of farmers or of artisans', says Hicks. 'The commodity market and

financial markets are the places where the market system is at home; when it proceeds to the formation of factor markets, land and labour markets, it is penetrating or "colonizing" relatively refractory territory. This was territory where its principles did not fit, or could only with difficulty be made to fit.²¹ The reasons that Hicks provides for this on the basis of his careful review of the historical processes is that trade cannot fully penetrate the realm of production where, for a variety of reasons, the horizontal relationship of the market is not adequate, and vertical and hierarchical relationships are necessary. The organization of production, in other words, has an internal structure which cannot be fully translated into market categories. If this is conceded, I would argue that an economy which must be thought of as consisting of a variety of organizations or units must be seen as reflecting two kinds of relationships, a set of *within* relationships and a set of *between* relationships. Exchange belongs to the latter and the spread of exchange and of markets must be interpreted as the attempt of the Mercantile Economy to convert more and more of the *within* relationships also into its kind of *between* relationships. One view about the process of marketization is that ultimately the Mercantile Economy will conquer the entire economy. While Hicks is mainly concerned with the tracing of the spread of the markets he does not think of it as a steady and unidirectional movement. In fact he recognizes right at the outset of his exploration that 'there are societies which have slipped back from being exchange economies, after which the same tale has been gone through again.'²²

In dealing with the movement of the Mercantile Economy into the 'refractory territory' of land and labour and hence of production, Hicks provides traces of evidence of the onward and backward aspects of that movement. I shall skip these and go to one area where Hicks finally confronts the truth of the distinction between what I have referred to as the 'within' and 'between' relationships in empirical categories. Hicks recognizes that the marketization process as he depicts it has made slow progress in the realm of industry and the world over vast sections of the labour force (especially in the 'underdeveloped' countries) remain within pre-market relationships. But he expects and hopes that some day they too will be in-

corporated into the new kingdom. It is going to be difficult, he concedes, but not impossible in terms of economic logic and calculations.

But 'political' factors may stand in the way. 'If there were no nations—if everyone would go where he liked, was just as acceptable where he went and was willing to go wherever he was wanted—the absorption of the whole human race into the ranks of the developed could be relatively simple', says Hicks.²³ However, he is not in favour of that 'resolution' because from his personal point of view 'the groups' that have formed nations, and some of the groups within the nations, are social units that have 'value' and 'far too much that is good and lovely' would be lost if they were to disappear. Now, that is the issue that has to be converted into analytical categories. Taking the global economy as a whole, why do nations become units in it and why do they come to have objectives and preferences that they do not wish to throw open to market forces? Why are they unwilling to surrender their *within* relationships to the uniform *between* relationship that trade may bring about? Further, if labour does not have free mobility between national boundaries, but capital is free to go where it wants, does it impose some characteristics even on the *between* relationship? Does the character of markets get altered then? These, I submit, are questions that must be examined to come to a proper understanding of markets 'as is, where is'.

VI

I now turn to a brief reference to Karl Polanyi's views on the market. Polanyi and his colleagues have done extensive research to document the nature of trade from very early times, going back to at least the seventeenth century B.C. on to more modern periods.²⁴ The case studies contain rich and fascinating information about the organization of trade and markets in a wide variety of situations. The accent is clearly on the institutional aspects of trade before and after the coinage of money, of trade with and without markets, of the arrangement of market trade and trade across vast territories and oceans. The case studies lead to the conclusion that the forms of trade, use of money and market elements differ widely across

social institutions, but except in a 'market economy' there is no particular relationship among these three elements. Piracy can be part of primitive trade; money can be used for payment rather than as a medium of exchange; and market elements need not be limited to setting a chain reaction of prices. But in a market economy, 'trade is directed by prices, and prices are a function of the market, all trade is market trade, just as all money is exchange money. The market is the generating institution of which trade and money are functions. In brief, catallactically trade, money and market form an indivisible whole.'²⁵ From an examination of early trade Polanyi refutes the hypothesis arising from Adam Smith that markets arise from the individual's propensity to truck and barter. The basis of the refutation is that the true starting point of trade is *not* local trade involving everyone in a community, but long distance trade. Such trade is the result of the absence of some goods in a region, and it may start with piracy, adventure, exploitation etc. Even when it gets established as buying and selling it is unlikely to penetrate deeper into the internal organization of society. One may paraphrase Marc Bloch and say that many societies in the past were not unacquainted with either buying and selling, but they, unlike many modern societies, did not live by buying and selling.²⁶

Polanyi recognizes three principles which act as 'integrative mechanisms' in different social situations: reciprocity, redistribution and exchange. The former two correspond to what Hicks later referred to as 'belowness' and 'aboveness', both belonging to pre-exchange stages, though Polanyi points out that a temporal sequencing is not a necessary aspect of the distinctions. 'Several subordinate forms may be present alongside of the dominant one, which may itself recur after a temporary eclipse.' This is documented in terms of a variety of actual situations ranging from tribal to socialist economies.

In his more familiar book, *The Great Transformation*, Polanyi concentrates on the modern phenomenon of the market economy which he characterizes as a self-regulating system of markets, directed by prices and nothing but prices, where the pattern of production and distribution is also subject to that self-regulating mechanism. In such an economy, all elements of industry or production in general are commodities, and

hence there are markets for each one of them, including land, labour and money. Those who possess any of these commodities earn incomes by selling them at definite prices. These prices regulate the production and distribution of the goods produced as also of incomes in such a way that what is produced is all sold. If all this was to happen as described, there is no need for intervention in the system by any outside agency, such as a State, and the system functions solely on the basis of the individual's pursuit of gain. Writing in the early 1940s, Polanyi correctly anticipated the nature of the market economy or of 'the price system' as it came to be identified in the discussions of later decades.

Polanyi also looks into the empirical counterpart of this version of a self-regulating system. The process towards what he describes as the 'nationalization' of markets was initiated during the mercantilist period. 'Mercantilism destroyed the outworn particularism of local and inter-municipal trading by breaking down the barriers separating these two types of non-competitive commerce and thus clearing the way for a national market which increasingly ignored the distinction between town and countryside as well as that between various towns and provinces.'²⁷ But the history of the period shows that the spread of the market at this time was not the result of its own dynamics but brought about by deliberate intervention by the State. But the measures were meant only to liberate trade from its particularism, and not to effect any change in the production processes, which remained for a long while patterned on the principle of householding of the peasant labouring for subsistence. Indeed, 'mercantilism, with all its tendency towards commercialization, never attacked the safeguards which protected these two basic elements of production—labour and land—from becoming the objects of commerce.'²⁸

The crucial change that came in moving to the market economy was that these two, labour or human activity which goes with life itself and land which is nature, neither of which is a commodity produced for sale, came to be commoditized. This was engineered by the new industrial class. Large-scale and continuous production necessitated continuous supply of raw material, labour and wage goods. It meant that all these must be on sale, available in the needed quantities to anybody



who was prepared to pay for them. Institutional arrangements which protected the indiscriminate sale of land and labour were all pushed aside in the name of a self-regulating market. The social dislocation that resulted was exactly similar to the one previously caused by the enclosure movement when the powerful elements in society were literally robbing the poor of their share in the common, tearing down their houses and destroying the traditional patterns of living of the masses. And the consequences were quite clear too. 'To the bewilderment of thinking minds, unheard of wealth turned to be inseparable from unheard of poverty.'²⁹ So, the market does not always bring with it All-round Advantage. As it aggressively penetrates territory hitherto forbidden, it brings riches and prosperity to some; but poverty and misery to many others.

VII

Where do we stand at the end of this selective tour into the land of the theoretical literature on markets? It is clear that exchange and markets are not simple phenomena and a diversity of views is very evident. From such diversity, is it possible to gain any clues at all about how markets actually function? Or do theory and policy belong to two different worlds, each with its own language of discourse without anything in common between them? These are the questions that take us to the next lecture.

NOTES

1. In his recent *A Brief History of Time* (New York, Bantam Books, 1988) Stephen W. Hawking, who holds Newton's chair as Lucasian Professor of Mathematics at Cambridge University and is widely regarded as the most brilliant theoretical physicist since Einstein, not only gives an account of different theories about the universe but also admits that his own views about the universe have undergone major changes.
2. Amartya Sen, *On Ethics and Economics* (Oxford, Basil Blackwell, 1987), pp. 3ff.
3. J. R. Hicks, *Value and Capital* (Oxford, Clarendon Press, 1939): '... the place of economic theory is to be the servant of applied economics' (from the Preface).
4. P. Sylos-Labani, 'Competition: The Product Markets', in Thomas

- Wilson and Andrew S. Skinner, eds., *The Market and the State: Essays in Honour of Adam Smith* (Oxford, Clarendon Press, 1976).
5. Adam Smith, *Wealth of Nations*, with an Introduction by R. A. Seligman (London, Everyman's Library, 1964), vol. I, p. 13.
6. Ibid., pp. 12-13.
7. Adam Smith, *The Theory of Moral Sentiments* (edited by D. D. Raphael and A. L. Macfie, Oxford, Clarendon Press, 1976), p. 9.
8. Ibid., p. 86.
9. Philip Wicksteed, *The Common Sense of Political Economy*, with an Introduction by Lionel Robbins (London, George Routledge & Sons, vol. I, 1935), p. 165.
10. Ibid., p. 156.
11. Ibid., p. 174.
12. Karl Marx, *Capital* (Moscow, Progress Publishers, vol. I, 1971), p. 332.
13. Ibid., p. 114.
14. Ibid., p. 115.
15. Karl Marx, *Grundrisse* (Harmondsworth, Penguin Books, 1973), p. 242.
16. Ibid., p. 243.
17. Ibid., pp. 247-48.
18. John Hicks, *A Theory of Economic History* (Oxford, Oxford University Press, 1969), p. 7.
19. Ibid., p. 24.
20. Ibid., p. 34.
21. Ibid., p. 101.
22. Ibid., p. 7.
23. Ibid., p. 161.
24. Karl Polanyi *et al.*, *Trade and Market in Early Empires* (New York, The Free Press, 1957).
25. Ibid., p. 257.
26. Marc Bloch, *Feudal Society* (first English translation, London, Routledge & Kegan Paul, 1961), vol. I, p. 67.
27. Karl Polanyi, *The Great Transformation* (Boston, Beacon Press, Beacon Paperback, 1957), p. 65.
28. Ibid., p. 70.
29. Ibid., p. 102.

LECTURE TWO

Market—'As Is, Where Is'

I

IN THIS second lecture what I propose to do is to discuss the market from a policy perspective—the 'market as is, where is', as I mentioned in the first lecture. But instead of going directly into that aspect, I am going to make an indirect entry into it via Leon Walras's treatment of markets. There are two reasons for doing so.

First, I want to indicate that if theory has many and diverse views about markets, it is because the market is a very complex phenomenon. Yes, exchange which is a practical day to day activity for all of us is a difficult thing when you begin to probe into it. It is not easy to capture all its dimensions and ramifications at one go. Theory's way of probing into it is through abstraction and one of the first steps in abstraction is to decide what is important and what is not, which, in a way, is a pre-theoretical decision. Theorists differ on this fundamental first step to theorizing, and for a variety of reasons, which I shall not try to enter into. This means that different theories capture different dimensions and ingredients of the complexity they probe into. An example will make this clear. Imagine that there is a famous sculpture somewhere which you have not seen. But you are given a set of photographs of the sculpture which are all representations of the real thing. The sculpture, however, is three-dimensional. In that sense the photographs are not true representations of it. Not only that. The photographs have been taken from different angles and vantages and so they look very dissimilar also. How can these photographs be made use of to come to have a 'proper' understanding of the sculpture that you have not seen? Now, the market is at least as complex as this sculpture, indeed more so because, while the sculpture remains the same, the market is one thing today and another tomorrow! One suggestion could be that taking the appropriate ingredients of all the photographs

available, one should try to produce a grand photograph of the sculpture. Whatever that monstrosity is, it is not going to help anyone to have a better understanding of the sculpture; far from it. And yet there are those who try to synthesize theories to produce a grand, correct theory. The folly of it is too obvious to call for any detailed comment. Note also a major difference between a physical thing like the sculpture or a building and a social phenomenon like the market. In the case of the sculpture, there is the possibility of directly seeing it to come to have one's own impression about it apart from its photographic representations.¹ As for markets, we can never 'see' them, even when we walk through them or deal with them.

There is a paradox arising from this fact. If social phenomena cannot be directly seen, we can 'see' them only through representations of them that others have made, even when we know that such representations may be partial ones. Even if one tries to make a new representation, it will still be partial. Translating that statement into our specific problem, it means that there is no way of getting to know the 'market—as is, where is' without the aid of theories about it. That is the reason why I have decided to begin this second lecture with one more theoretical representation—deliberately.

My second reason is that I find the Walrasian representation² one of the most helpful to make an entry into the real world, not because it is a more realistic representation than the other ones that we have looked at already, but precisely because it is the one most removed from reality. To put it somewhat differently, we can understand markets in the real world, not directly through the Walrasian representation, but by addressing meaningful questions to it. I shall let Adam Smith, Karl Marx, John Hicks, and Karl Polanyi question Leon Walras. Our understanding of the 'market as is, where is' should emerge from this symposium of theorists.

II

Among economists the Walrasian representation of markets—the 'competitive market' either in the textbook version, or its rigorous reformulation by Arrow, Debreu, Koopmans and

others—is the most widely known and, perhaps, the most commonly accepted as bringing out the essential features of an economy functioning through market relationships.³ Hence I shall not try to expound it in great detail. Instead, I shall concentrate on the nature of that representation which Walras himself was eager to point out.

In the first place, Walras's conscious effort was to make economics one of the 'physico-mathematical sciences', one of whose features, according to him, was that they go beyond experience as soon as they have drawn their type concepts from it. 'From real-type concepts, these sciences abstract ideal-type concepts which they define, and then on the basis of these definitions they construct *a priori* the whole framework of their theorems and proofs. After that they go back to experience not to confirm but to apply their conclusions.'⁴ On this basis, Walras's attempt was to produce a science of 'pure economics' similar in nature to geometry, which, though based on abstract concepts removed from real life, has very wide and fruitful applications in real life situations. A scholar of pure science has the right to pursue his enquiries into its abstract properties if he finds that they excite his curiosity, and many geometers do that. But in the case of the pursuit of pure economics that is not the only rationale. 'The truths of pure economics yield solutions of very important problems of applied economics and social economics, which are highly controversial and very little understood.'⁵

Pure economics, of course, is not just geometry; in essence, it is (claimed Walras) 'the theory of the determination of prices under a hypothetical regime of perfectly free competition'. And although the theory was expounded in terms of very high level mathematics of his days and, consequently, remained unrecognized for several years, Walras gave an exposition of it in simple prose which I shall reproduce:⁶

Let us imagine a market in which only consumers' goods and services are bought and sold . . . Once the prices of the ratios of exchange of all these goods and services have been cried at random in terms of one of them selected as *numeraire*, each party to the exchange will offer at these prices those goods or services of which he thinks he has relatively too much, and he will demand those articles or services of which he has relatively too little for his consumption

during a certain period of time. The quantities of each thing effectively demanded and offered having been determined in this way, the prices of those things for which the demand exceeds the offer will rise, and the prices of those things of which the offer exceeds the demand will fall. New prices having now been cried, each party to the exchange will offer and demand new quantities. And again prices will rise or fall until the demand and the offer of each good and each service are equal. Then the prices will be current equilibrium prices and exchange will effectively take place.

This is the basic Walrasian model. Walras then goes on to show that production can also be analysed in this manner, for, after all, production is the sale of productive forces by land-owners, workers and capitalists which entrepreneurs demand to convert them into consumer goods. That is what the owners of productive forces are after. In other words, all economic activities, production, distribution, etc., can be thought of as a flow of commodities, of sales and purchases, each in its own market prompted by the desire of every participant to get what he wants and to get rid of what he does not want in the pursuit of his own most satisfactory position. Just as the market for consumer goods in general and for productive services in general can be seen to be interrelated through prices (and only through prices), *all* markets can be shown to be inter-related, thus converting the entire economy into a system of prices and quantities held together by the offer and demand principles.

The economy as a system of self-adjusting markets is now so readily accepted by economists and by the general public also, thanks to the economists' powers of persuasion, that the imagination and effort that went into that conceptualization frequently escapes attention. And yet, as Schumpeter points out, Walras's representation of the economy—its engineering majesty—was a remarkable achievement, one of 'revolutionary creativeness'.⁷ It not only brought out the notion that markets are interrelated—even the market for peanuts and bonds!—which in itself was a noteworthy performance. But it showed that the uncoordinated and essentially self-interested biddings of thousands of participants in a large number of apparently unrelated markets lead not only to each of those markets arriving at a supply-demand equality at prices

acceptable to every participant, but to *all* of the markets reaching that position of equilibrium simultaneously. Not only that; at that supreme moment, each participant (whether consumer or producer or owner of productive forces) is maximizing his benefits and, further, it is within his own budget which the prices that the markets arrive at designate. It is a combination of these three that has led the Walrasian General Equilibrium to have such a powerful hold over the minds of people who have become aware of it.

That hold has been further reinforced by the discovery, in subsequent years, of the relationship between competitive equilibrium and Pareto optimality, the latter defined as a position where no participant in any exchange (recalling that all economic activities can be thought of basically as forms of exchange) can be made better off in terms of his own preferences without making someone else worse off. According to what has come to be known as the Fundamental Theorem of Welfare Economics, under certain specified conditions (in particular the absence of interdependences that are external to the market) every perfectly competitive equilibrium is Pareto optimal, and with some other conditions (especially the absence of economies of large scale), every Pareto optimal social state is also a perfectly competitive equilibrium, with respect to some set of prices and for some initial distribution of endowments of the participants. When these are also taken into account, the market, competition and efficiency become closely related, leading to the conclusion that the best of economic systems is the one where self-interested individuals try to maximize their own welfare by operating through competitive markets, because then the most efficient possible utilization of resources is achieved.⁸

Some aspects of the Walrasian system deserve special attention. It was mentioned earlier that Walras's method is one of taking empirical categories and generating ideal-type concepts from them. In that process theory sets up its own language of discourse which is likely to be distinct from the language of discourse of day to day life. Bearing this in mind, Walras quite explicitly spelt out his (theoretical) language of discourse, or a universe of discourse where the key concepts get defined by their interrelationships. Lesson 3 which spells out

these relationships is one of the basic components of Walras's pure economics. He begins with *social wealth* which is defined as all things material and immaterial that are *scarce*; that is to say, on the one hand, useful, and, on the other hand, only available in limited quantity. Useful things limited in quantity are *appropriable*. Appropriation (which is ownership of property) is applicable to all social wealth and nothing but social wealth. Appropriable things are *exchangeable*. Useful things limited in quantity are assigned values by exchange, and social wealth is the sum value thus assigned to useful things limited in quantity through exchange. Thus, a universe of discourse consisting of the interrelated concepts of social wealth, utility, scarcity, appropriation and exchange is set up.

But it is important to note that this is only *one* of the universes that Walras recognizes. The other universes that he takes note of are the universe of production, or of industry where the multiplication of useful things limited in quantity takes place, and the universe of property which deals with the appropriation of such things. He does not develop the language of these universes but is quite explicit that: 'Value in exchange, industry and property are, then, the three generic phenomena or the three orders or groups of specific facts which result from the limitation in quantity of utilities or the scarcity of things. All three are bound up with the whole of social wealth . . .'⁹ An issue he debates is from what point of view these phenomena are to be studied. It is possible to approach them from the point of view of any one of these three, he admits, and goes on to say: 'We must make up our minds. Above all, we must be exceedingly careful not to study social wealth from all three points of view at once or from any two of them simultaneously . . . nothing could be more incongruous.'¹⁰

This is a significant aspect of Walras's method. He is of the view that economists till then were mainly concerned with the second and third orders mentioned above, viz. industrial production, that is, the conditions which favour or hinder the increase in quantity of social wealth and property, that is, the conditions that render the appropriation of social wealth legitimate or illegitimate. But the universe of exchange had not received the attention it deserved and hence he was going to concentrate on that. To do this he would have to leave out the

other two, not because they were unimportant, but because he had made the decision to abstract away from them. He very explicitly recognizes too that some of the derivations from his theoretical system are *not* applicable beyond the limited universe he was dealing with. Two of these deserve special attention. The first is about free competition. 'Our proof implies', wrote Walras, 'a fundamental distinction between individual wants, i.e. private utility which the individual is capable of estimating, and social wants or public utility which is estimated in an entirely different way. Therefore, the principle of free competition, which is applicable to the production of things for private demand, is not applicable to the production of things where public interest is involved. Are there not economists, however, who have fallen into the error of advocating that public services be brought within the fold of free competition by turning these services over to private industry?' The second is even more significant. 'Though our description of free competition emphasizes the problem of utility, it leaves the question of justice entirely to one side, since our sole object has been to show how a certain distribution of services gives rise to a certain distribution of products. The question of the (original) distribution of services remains open, however. And yet, are there not economists who, not content with exaggerating the applicability of *laissez-faire*, *laissez-passer* to industry, even extend it to the completely extraneous question of property?'¹¹

III

Having examined Walras's representation of an exchange economy and the procedure he uses to set it up, we are now ready to enter into the symposium on 'market as is, where is'.

At the outset let us note that Walras's engineering construction is not a description of markets as they are, but a depiction of markets as they could be under very specified conditions. Walras did not spell out all these conditions—for that matter, he did not even show that his equation system had a solution—but subsequent studies have brought out a list of these conditions necessary for the system to be what it is claimed to be. Many of these are technical, such as the nature of the preference functions and the production functions. Most of these

are now well known and hence we shall not enter into them. But there are some conditions of a societal nature which are more closely related to an understanding of markets as they are, and some of which we touched upon in the last lecture, on which we shall concentrate attention during the symposium.

In order to have a better appreciation of these conditions it will be useful to look at the Walrasian representation of markets through another representation of it suggested by Joan Robinson.¹² She compared the Walrasian system to a prisoner-of-war camp. The men are kept alive by official rations and they receive gift parcels from the Red Cross periodically. The contents of the parcels are not tailored to the tastes of the individual recipients, so that it is possible for each one to gain by swapping what he wants less for what he wants more. The camp official takes the place of an auctioneer and announces exchange ratios in terms of one of the goods picked from the parcels and lets the prisoners-of-war enter into exchange contracts. But the contracts are valid only if at the announced prices the offer of each good is equal to the demand for it. If not, the tentative contracts are cancelled and the game starts again and is played till the two conditions are simultaneously satisfied, viz. the announced prices lead to satisfactory contracts for all participants and at these prices in all markets quantities supplied and demanded are matched.

The comparison of the market economy to a prisoner-of-war camp may not be particularly palatable to those who identify such an economy with personal freedom, but it brings out one of the societal conditions that lie hidden beneath Walras's representation—that of the 'initial endowment' of the participants, or of the property question which Walras recognized, but decided to treat as extraneous to the exercise of price determination. Unlike some of his latter-day followers, Walras situated his analysis within a realistic social framework consisting of three distinctly different social groups or classes, viz. landowners, workers and capitalists, who are owners of productive services, land, personal faculties and capital proper. He recognized too that in real life the same person may assume two or more of these roles. The productive services that the participants own would constitute their initial endowments which could be a datum for the analysts. As noted above,

Walras was concerned with only one aspect of that datum, viz. to show that a certain initial distribution of services would give rise to a certain distribution of products.

To move to an understanding of markets as they are and their implications for policy, three more aspects of the initial distribution of endowments must be taken into account. The first is to note that even if the three productive services can be thought of as heterogeneous and distinctly different things, the exchange process by converting them into value terms homogenizes them and determines their value equivalents or relative prices. In fact, whether all the productive forces will come to have value at all cannot be known *a priori* because it is the market or exchange that will assign them values. If, in equilibrium, the total availability of any one of the productive forces turns out to be more than what is demanded, it will become redundant and come to have zero price because exchange values are scarcity values and anything that the system declares to be redundant, obviously, can have only nil scarcity value.¹³ It is not the act of exchange that determines the scarcity value, but the market forces which arise from the variety of factors that the act of exchange accepts as data.¹⁴ These include the initial distribution of endowments, the preferences of participants, the nature of technology etc. Of these, the latter two are explicitly recognized in the treatment of exchange and of markets, but the first is usually left out. But if preferences and technology are seen as contributory factors in determining the relative value of goods, certainly the initial distribution of services too enters into that determination. It is not easy to say how much each one of them contributes to the determination of exchange values, but the tendency to treat them as independent determinants is questionable, however convenient it may be for analytical purposes. They influence one another and, if priority is to be assigned to any, it will have to be to the distribution of endowments, for it is directly related to appropriation or the universe of property whose link with the universe of exchange has been noted already. Be that as it may, these preconditions of exchange can lead to one of the productive services turning out to be redundant when exchange value is assigned to it. Thus, land under certain conditions may become a 'free good' for which no positive value

can be assigned. Personal services too may become redundant, simply existing as sands in the Sahara as the authors of a more recent rendering of the Walrasian representation have stated.¹⁵ In this context, therefore, the question that Polanyi raised as to whether land and labour, which are not produced in response to market signals, can be converted into commodities or whether they should be treated as *extra commercium* becomes pertinent. It may be recalled that Walras himself recognized that certain things cannot be brought under the principle of pricing on the basis of supply and demand.

In the light of this question, a second issue relating to initial endowments to be considered is the precise nature of the distribution of productive services among the participants. A special case of it, though by no means exceptional, is where some participants own all land and capital (which together may be considered as property) and the rest own only personal services. Consider that all participants need some consumer goods, but that when the system is organized on market principles personal services are seen to be redundant. What kind of biddings will take place? How will the system function? This is the sort of situation that Marx described on the basis of the historical conditions of his time and which still is very pertinent in countries like ours. Even in the technical discussion of the Walrasian system this problem finds echoed in what has been referred to as the 'survivor problem' which, for obvious reasons, has not received the attention it deserves.¹⁶

Whether the special case mentioned above is general enough to require further treatment in the literature on markets is a pre-theoretic issue to be determined basically on the strength of the empirical significance of the described condition. But even if it is not considered in its limited form, it gives rise to a third problem relating to the initial distribution of endowments. Can the initial distribution of endowments be assumed to be such as to make the bidding power (the bargaining power or the purchasing power) of the participants more or less equal? Such, of course, is the situation within the prisoner-of-war camp where the initial endowment of every participant is the daily ration plus the parcel he has received. It would appear that Walras did not address himself to this issue. Subsequent theorists who have become aware of the problem have, on the

whole, tried to evade it by making assumptions that would not disturb the essentials of the Walrasian system. A widely held position to escape some of the embarrassments that asymmetries of bidding power of the participants may cause is to admit that the equilibrium prices and allocations that the exchange process brings about may not be socially acceptable, though the problem does not arise because of exchange and markets, but because of the initial endowments, and that for any given initial endowment, a corresponding equilibrium price can be found. This absolves the analyst *qua* analyst from making any pronouncements about the social acceptability of a 'solution', but that is not an option that a policy maker can resort to. He must consider whether under any given set of conditions reliance on markets is the proper thing to do.

The analyst also cannot fully escape from considering the impact of initial endowments on the exchange process. If the initial endowments are such that there are pronounced asymmetries of bidding power, can it be assumed that all non-equilibrium contracts will get cancelled and that by successive steps equilibrium will be arrived at?¹⁷ In the prisoner-of-war camp, the camp official may have the power to cancel contracts that do not satisfy the required conditions. But whose requirements? Obviously that of the analyst who wants to show that a competitive equilibrium is possible. But why must any participant (assumed to be maximizing his own utility) play the game to satisfy a fictitious auctioneer, or even an omniscient theorist? What if the initial distribution of endowments is such that some participants can impose prices advantageous to them on the market and force others to accept them?¹⁸ This, of course, is not a 'neat' solution to a theoretical problem, but certainly not an imponderable one.

A similar issue which has been receiving attention of late is where there are informational asymmetries among the participants. The pioneering work in this area is that of Akerlof, who considered a stylized market for used cars where the problem is that potential buyers do not have as much information about the goods in question as the sellers have.¹⁹ It has been shown that under such circumstances, there can be either multiple Walrasian equilibria, or that the exchanges that may take place and the allocations resulting from them

cannot be considered to be efficient.

In the theoretical literature instances of this kind involving departures from the specified conditions necessary for equilibrium have been taken note of from time to time, leading to the conclusion that a competitive equilibrium solution may not always exist. The theorist's task may be over with rigorously arriving at that conclusion. But what if such instances are empirically realistic possibilities? What kind of real-life market situations do they give rise to? In particular, what if the cases considered as departures from specified theoretical requirements—such as asymmetries of bargaining power and asymmetries of information—tend to interact and reinforce one another? What will be the nature of the resulting market conditions? There have been few attempts to pursue questions of this kind. But enquiries along these lines are the ones required to generate theoretically informed descriptions of markets as they really are. We shall now turn directly to that task. And since such descriptive accounts have to be concrete (as against abstraction that characterizes theoretical enquiries) we shall try to have them earthed in the Indian reality to the extent possible.

IV

In entering into the enquiry of the market as is, where is, it may be useful to distinguish between exchange and markets. Exchange must be considered as a transfer of goods and services between two parties who perceive some advantage in doing so. The emphasis is on the act itself and the logical underpinnings of it.²⁰ Market, on the other hand, is the institutional framework within which the act of exchange takes place or the institutional milieu which is the context of the relationship of exchange between the parties. The location where the transaction takes place will be an important aspect of the market when the spatial dimension is central to the transaction. The medium of exchange will be another ingredient of the institutional aspect of the market where the transaction is thus mediated. The authority backing the market will also be part of the institutional framework of the market where the medium is primarily fiduciary in nature. If there are intermediaries in

the transaction, they too will have to be brought in as a component of the market. The contract on which the transaction is based and the authority that backs it and makes it binding on the parties will also have to be incorporated as part of the market as an institution. Since exchange is based on ownership, all arrangements and agencies that are necessary for the social principle of ownership to be made effective too must be directly or indirectly recognized as part of the institutional proviso of the market. As information is an essential component in exchange, the information system becomes another major ingredient of the market. These are among the major components of what is normally described through the shorthand expression 'market', and it is doubtful whether all its elements can be spelt out.

In theoretical discussion the accent is on the logic of the market phenomenon and thus on exchange. But in so doing the theorists tend to take for granted the institutional features of the market, or treat them as 'extraneous' (to the analysis). And on that basis 'exchange' and 'markets' are treated as interchangeable terms, often without explicitly acknowledging that it is being done.²¹ More on this later on.

If we now look back at our discussion on markets in economic theory it can be seen that Walras concentrates on exchange after very explicitly stating that for analytical purposes he is carving out exchange from industry and property and then setting up a universe of exchange to enquire into the determination and function of value in exchange. Polanyi's thrust is on the institutional dimension of the market as he takes the position, rightly I think, that the 'economy' is always embedded in a larger institutional milieu. Hicks holds on to the essence of the logic of exchange through his *Principle of All-round Advantage*, but traces the institutional evolution of the Market Economy. Marx draws a clear distinction between the logical properties of exchange and the institutional factors in the transformation of exchange as a social activity. Adam Smith's very contextual reference to 'self-interest' has subsequently become the sanction behind a highly personalized and a vastly generalized theory of exchange, but we have seen that it is a lack of familiarity with Adam Smith's social philosophy that has led latter-day scientists to make him the patron saint of *their* social

philosophy. Viewed against the objective historical conditions of his times and his explicit polemic with the mercantilists, it is clear that Adam Smith's main concern too was with the market as an institution whose domain he was keen to see extended (but certainly not without limits) because of the practical economic benefits he perceived from it.

The distinction we have drawn here between the logic of exchange and the market as an institution is crucial for an understanding of the market in real life and in examining the social policy towards markets.²²

V

It is because the market is a complex social institution that we are not able to 'see' it even when we are engaged with it, and why differences of opinion about its role frequently arise. But we must be able to make sense of it if we are to deal with it. How do we go about that?

Let us note, at the outset, that as an institution the market exists among other institutions. This may be readily admitted as a matter of fact even by those who try to universalize its logic. But we must go a step further. The market not only exists along with other institutions in society, but in constant engagement with them. To make use of Hicks's terminology, there is, usually, an ongoing process of penetration *and* withdrawal of the market in society, or a process of colonization *and* decolonization. That the extent or spread of the market at any given time will depend on this engagement can be easily appreciated. But the nature of the market—of markets, to be more accurate—also is a derivative of that engagement. An understanding of social institutions will, therefore, be necessary to get to know the market as is, where is. Let me illustrate this with reference to two social institutions that most economists recognize, viz. the State and the family. Hicks and Polanyi, among others, have shown that the State and the market have very close links. If the State, in this sense, is seen as the overall authority in society, they as well as Marx would give ontological priority to the State. In Hicks, it is the 'aboveness' of the pre-market set up which continues even after the market emerges and spreads. This 'aboveness', in fact, is ex-

plicitly recognized by Adam Smith, who sets the market *within* the threefold duties of the sovereign.²³ Walras too recognizes a realm above or beyond the market where the logic of exchange cannot be or should not be applied. Now, like the market, the State too is an evolving social institution and hence the precise nature of the 'aboveness' cannot be *a priori* indicated. As an empirical proposition it may be pointed out that even in a so-called 'market economy' like the United States more than a third of 'social wealth' (à la Walras) is channelled through this 'above' route. In modern times, it is typically the quantum of resources to be utilized for the defence of the realm that the State determines and takes out of the purview of the market. Some aspects of education and health too are usually under the State, not handed over to the market. In many parts of the world, the State is also forced to make more and more decisions about the use of social resources because such decisions cannot be left to the market, the protection of the environment being the most pronounced reason. In some parts of the world, the State decided to take on much more. Whether it is prudent or not is a different issue, related to both social philosophy and a variety of contextual factors, but there can be little dispute about the fact.

If 'aboveness' is interpreted to mean hierarchical or vertical arrangements for the utilization of resources in contrast with the market's horizontal arrangement, then even in economies where the market is widely prevalent, there are other vertical channels juxtaposed to the market. These are the organizations for production, firms, or their equivalents whose internal structure is characterized by the principle of hierarchy. That production requires an element of hierarchy over and above all facilities that the market can provide was the rationale that was provided for the existence of firms, although recent writings on the subject have argued that the alleged hierarchical elements can be converted into transaction costs and can, therefore, be accommodated within the market categories.²⁴ Perhaps many elements of hierarchy can be thus translated, but a primary component of a production organization—of anything that is considered as organization, for that matter—is trust, and as Arrow has rightly claimed, 'this is not a commodity which can be bought very easily; if you have to buy it, you already have

some doubts about what you have bought.'²⁵

The market also functions along with the pre-market 'be-lowness'—a variety of institutions whose internal arrangements for the utilization of resources *do not* follow (for whatever reason it may be) the non-tuism of exchange. These are institutions whose principle is the inclusiveness of all its members. Marx mentioned the tribe, the clan etc. as examples. All institutions or organizations that practise internal division of labour, but where the co-ordination of activity is *not* based on exchange principles and which, therefore, have principles of distribution other than what exchange would indicate, must be brought under this category. In our country the traditional *jajmani* system of village organization would be a good candidate for inclusion in it. We have very graphic accounts, including some provided by R. C. Dutt himself, of how the market colonized these institutions.²⁶ If the feudal set up in general can be considered to be a form of pre-market organization of this kind, it can be claimed that the growth of the market as a world-wide phenomenon was its colonization of the feudal order. Most people will consider this to be a thing of the past and pronounce that in that area the market has made a final conquest. However, practically all national economies still have one element of it left over which is the family or the household. Perhaps the role of the household as a pre-market and non-market institution does not receive immediate recognition because in one version of the market, the household is treated as a major component of it constituting 'consumers', with firms constituting the other component as 'producers'.

The depiction of the market as an institution and exchange as an activity as a relationship between 'consumers' and 'producers' may have some expository advantage (as seen in the Walrasian representation and its subsequent versions) but has no basic validity.²⁷ The bulk of exchange in a modern economy is between producers and producers, and consumers as such come into the sphere of exchange only to the extent that what is consumed is purchased. Certainly, this is not the case under all circumstances. Exchange is always a transaction between two owners, and it is not always possible to designate one of them as seller and the other as buyer; even if it is possible, not all buyers are consumers.

The households assume special significance as non-market organizations, especially when they are household-production units, as a large number of them are in our country, and in many other countries of the world. Such units continue to provide colonies par excellence for the market. They deserve special attention because, except in the rare case where they produce all their requirements, they have market connections; and where they do, they display a pronounced amphibian character. They can exist only because they have access to markets (for their inputs or outputs) but they can have access to the market only because they preserve a non-market internal structure.²⁸ Because of this amphibian nature their engagement with the market and the market's engagement with them deserve special attention. An important aspect of this engagement is that households through their internal organization determine how much and in what manner labour power will be commoditized. In the contemporary situation this is primarily related to female labour power. Once again, without entering into the merits of the case, I would state this as a fact and claim that the nature of the market depends very much on the type of engagement it has with the family as an institution.

This engagement must also be treated as a continuous process. Even where the household is (wrongly) represented as a consumer unit, it retains its productive character of converting a combination of inputs into outputs as in cooking, and in the fundamental sense of creating use values through the utilization of labour power. That standard measurements of output in an economy do not take these into account cannot be used to deny this fact and its analytical significance.

VI

In view of the constant engagement with other institutions, the market as an institution manifests itself in diverse forms at any given time. The representation of the markets for goods, $1 \dots m$, being all alike because every one of them is a function of price, is useful for some purposes, but overlooks the fact that the act of exchange takes different forms under different conditions as, for instance, C-C, C-M-C and M-C-M, as Marx pointed out. The difference between exchange without

a medium and through the medium of money is easily recognized and admitted. But for a proper understanding of markets in real life it is necessary to examine other forms of exchange too.

Consider the two forms, C-M-C and M-C-M, both of which involve the use of money. But as was pointed out in the last lecture, these are two substantially different transactions, the first still a quest for different forms of use value, while the second is search for exchange value.

In real life many transactions are a combination of these forms, as, for instance, when a producer of grains or vegetables tries to sell his produce to a merchant who buys them only to sell them again. What the character of this transaction is cannot be *a priori* determined, for it will depend on many factors such as what C is, who the seller of C is, what the standing of the merchant is, and so on. But a couple of general observations can be made. The first is that the merchant approaches the transaction with generalized purchasing power at his command and the seller, with a single commodity. It must be presumed that, therefore, in most instances of this kind the merchant will have greater bargaining power. This will be particularly so if C is perishable, with high cost of storage etc. Under such conditions, the transaction will clearly give rise to a buyer's market. This is a phenomenon that one frequently comes across in our rural areas as well as in international trade. One can go a step further. If the seller is eager to purchase a number of commodities, $C_1, C_2, C_3 \dots$ after selling the initial C and if the merchant is a seller of these commodities, he may be in a position to strike appropriate bargains and tie the other party down to a variety of transactions. Such 'tied transactions', again, are very common both within countries and across countries, sometimes treated as the phenomenon of inter-locked markets in each of which the merchant is in a position to take advantage because of the interconnections.²⁹

It must be admitted that if the $C-M-C \leftrightarrow M-C-M$ transaction can give rise to a buyer's market, it is conceivable that it can also lead to a seller's market, although that may be a less likely case. But whether the one or the other, the point to be noted is that in these instances it is very difficult to envisage that there will be equal bargaining power on both sides,

and the resulting markets, therefore, are likely to show special features of their own, very dissimilar to the uniform features that certain theoretical representations assign to markets in general.

A special case of the $C-M-C \leftrightarrow M-C-M$ transactions was referred to in the previous lecture where the C happens to be labour power, and the initial seller has nothing other than that labour power to sell. This market condition reflects a couple of major institutional features. The first is the nature of the distribution of initial endowments as noted already, which makes it impossible for the owner of labour power to survive without selling something that is not produced in response to price signals and profit-maximizing calculus. Neither is it easy for him to regulate its supply to the market, as he does not have any holding power. He must also constantly face the prospect that his endowment may be declared redundant by the market forces and hence he may not be able to sell it at all. Under these conditions it must be presumed that if the transaction takes place, what emerges will be a buyer's market. This is reinforced by the second institutional feature that comes about 'naturally' under these conditions. When labour power is one of the goods in a transaction, it does not end with a mere exchange; it results in the production of new goods. These goods are considered to belong not to the owner of labour power, but entirely and exclusively to the other party in the transaction, out of which he pays out a portion to the owner of labour power as his compensation, an arrangement that substantially augments the bargaining power of that party and can, and frequently does, lead to different forms of tied transactions.

Even where the labour power is not the only good that its owners have to sell, exchange involving labour power has a further peculiarity. The buyer of labour power is buying a flow over time—services to be rendered over a day, week or month as the case may be—without the assurance that the flow will be made available uninterruptedly. It is, therefore, a case where the buyer cannot have 'full information' about the good that he purchases. It is possible that this informational asymmetry may turn out to the advantage of the owners of labour power.

Be that as it may, the point to note is that the Walrasian presumption (or assumption as the case may be) that produc-

tive services may be treated alike and that consequently the markets involving them can be treated as similar does not hold and in fact cannot hold in real-life situations. The features of each of these markets will have to be empirically assessed making use of theoretical insights. If, thus, the markets for and involving productive services cannot be fitted into a uniform pattern, it is a moot question whether one can meaningfully think of a system of markets all of which are subject to the pull of the same gravitational power. As far as real markets are concerned, it will be more fruitful to think of different markets being under different dispensations while recognizing the basic Walrasian agreement that there are forces in the system linking different markets. In other words, markets are certainly interconnected; but their interconnectedness need not be through the regime of prices alone.

VII

The interconnection of markets results not only because of certain underlying tendencies, but because, as exchange becomes more and more widespread and markets colonize more and more domains, they come under the activity of traders or merchants. A point on which Marx, Polanyi and Hicks concur is that the major departure is not so much the emergence of exchange—exchange, in the form of barter at least, must go back to the very early periods of human civilization—but the emergence of the *specialization* in trade, or the emergence of the specialized role of the trader in relation to exchange as an activity. Barter (i.e. the C-C form in the Marxian scheme) becomes generalized exchange or of the C-M-C form when one of the commodities gets recognized as money or the universal equivalent. But in a practical sense, more than the presence of money it is the presence of the trader, who both buys and sells using money, and who stores a variety of goods, that makes it possible for exchange to become generalized. With the introduction of money, the double coincidence of needs that governs barter does not simply vanish. The presence of an intermediary leads parties to him, making it possible for them to become either buyers or sellers, drawing the goods they want from him and dumping the goods they do not want also on him. Apart

from storing the goods, the trader also plays another major role: he becomes the repository of information. In the restricted barter situation, both sides must have information about the goods of the other *and* also about the other party as well. Otherwise exchange is unlikely to take place. When there is an intermediary, the buyer of a good does not have to know anything about the original party that disposed of the good, as long as the trader can give him information about the good itself. Similarly, a seller does not have to know anything about the final purchaser of his good. As one who stores goods as well as information, the trader plays a crucial role in the growth of markets. Since trade is his specialization and from which he derives benefit, it will be to his advantage to see that markets grow.

But the story does not end there; the merchant also transforms markets, and in many ways. While he is a specialist in trade, the merchant has no interest in exchange *per se*. His interest in exchange is because it enables him to accumulate surplus in the form of exchange value. Hence, through his intermediation exchange changes from an activity concerned with use values to one primarily interested in exchange values, the transformation from C-M-C to M-C-M that Marx had dealt with. In effect, it means that markets become the arena for the play, and indeed the display, of money power. And an economy dominated by such markets becomes one where economic decisions come to be based on the 'one rupee one vote' principle. Secondly, as one who stores goods, the merchant comes to have enormous power to affect the prices of goods to the extent that he is able to regulate, however tentatively, the supply of goods. No matter what Walras and the theorists who follow him claim, prices that prevail in markets dominated by merchants cannot, therefore, be treated as revealing the 'true' economic significance of goods, or as reflecting the preferences of 'consumers'. Thirdly, the merchant is under no obligation to freely disseminate the information that he has. Under many circumstances, distorting the information may be to his advantage and there is no reason to think that he will not do so. Once again, the symmetry of information that the pure theory of exchange assumes cannot be expected to prevail in actual market situations.

In the theoretical literature such distortions, if recognized, are assumed to disappear when markets become more and more competitive. Thus, if a seller makes 'abnormal profits' through any of these measures, others will come in and eliminate the abnormal profits as also the distortions. To an extent this is true.

But, again, one must examine what the real-life counterpart of the process is. To do so it is necessary to probe deeper into the supply side of the market phenomenon. I have tried to show that the supplier is not usually a producer, but a trader.³⁰ But, 'in the long run', a trader cannot supply unless a producer produces. But what does a producer do? On this, there is a fundamental difference of perception between Marx and Walras or the Walrasian school. According to the latter the producer's main concern is to satisfy the needs of the consumers, for only then will he be able to make profits. Marx sees it differently. The capitalist producer, he argues, must keep on producing which is his first task and also try to persuade potential buyers to purchase what he produces by convincing them that what he has produced is necessary for them.³¹ Now, these two aspects are closely related, because while the surplus value (or profits, though the two are not identical) that he is after is generated in production, it is realized only through sales. In a capitalist system, thus, the producer must also become trader, though the functions and the skills required for each are quite different. The producer-trader has to reckon with other producer-traders who compete with him in production and trade. If he is to survive he must ensure that his competitors do not capture the entire market. An effective way to achieve this is to differentiate the market so that he will be able to retain (quasi-monopoly) control over a segment of the market at least. This is done by differentiating his product (real or illusory) from those of his competitors and by exercising adequate information control to ensure that some buyers get attached to him. In this process that all producer-traders inevitably participate in, while markets get extended, they get differentiated and segmented also. The differentiation-segmentation can be based on product differentiation, purchasing power differentiation of buyers, location differentiation, information differentiation and a variety of other factors as well. One of its implications is

that buyers and sellers will be connected not only through prices, but through other considerations also. Paradoxical as it may appear, when markets get generalized, they get truncated and segmented too. And each segment comes to be characterized by features of bilateral monopoly whereby prices become just one of the links between the two parties and price determination depends on the relative bargaining position of the two sides. One of the ways in which the producer-trader reduces the bargaining power of his buyers is to make it awkward for them to be seen bargaining about prices!

If markets are like this in real life—characterized by asymmetries of bargaining power and of information; dominated by traders and the quest for exchange value; differentiated and segmented; overlapping and criss-crossing—then they are far, far away from the elegant Walrasian representation of a system of markets in general equilibrium. A major reason for it is that the Walrasian model which has no function for money and merchants (with any one of the ‘m’ commodities serving as *numeraire*) and where sellers meet buyers or producers meet consumers is an attempt to produce a generalized version of barter trade, however paradoxical that may be!³²

VIII

On the basis of the understanding of markets as they are, we can finally turn to the question of how policy makers are to deal with them.

The first thing is *not* to approach markets in real life in terms of any single representation of it. A special reference here must be made to the Walrasian representation because, on the strength of its logic and its association with Pareto optimality, economic theorists frequently recommend markets, including ‘free markets’, to policy makers, certifying that markets are the means to efficiency.³³ It can now be seen how dangerous it will be for policy makers to accept and act on the basis of such a recommendation because they do not live, and cannot afford to live, in the ‘as if’ world that theorists create for their own convenience. A recent commentator has said: ‘The “general equilibrium” model, as perfected by Arrow, Debreu, Koopmans et al., is a jewelled set of movements, a celestial clock-

work to use the old image of Laplace, in which perfect competition and optimal allocations operate as an Invisible Hand, except that the Invisible Hand is neither God, the principle of benevolence, nor the spontaneous adaptation of Nature, but a Mathematical Theorem . . .³⁴ One of the basic premises of that theorem is that economic power is fairly equally distributed among all participants—a far cry from the real world. And Frank Hahn, after his critical studies of general equilibrium models, warns: '... those who regard power as central to economic understanding must look beyond classical General Equilibrium Theory.'³⁵ Walras himself, as we have seen, was highly critical of those who did not know how to interpret his theoretical system. The argument here is not that as policy and theory deal with different realms theory cannot be of aid to policy. It can. But it must be understood and applied, not just swallowed and reproduced as 'professional wisdom'.

Following from this, it is important to recognize that while it may be possible to demonstrate that even if the act of exchange has a 'universal' logic underlying it,³⁶ the nature of markets is invariably contextual. We have seen the major elements of that context—the nature of the other social institutions within which markets exist and with which they interact, the distribution of initial endowments of the participants, the nature of the information and control mechanisms of the system, and so on. In real life these take a wide range of permutations and combinations which cannot even be taken as stable. They are the ingredients of social dynamics and hence their interactions are constantly in a state of flux. Hence scholarly recommendations to policy makers to 'leave it to the market', 'become market friendly', etc. are patently inane. The decision that policy makers have to take with respect to markets is not 'To have or not to have', but how much to have; and not 'To be friendly or hostile', but to see where, when and how.

The answer to these questions will depend on their assessment of the total environment—not only the limited economic environment, but the vast and nebulous social environment. In particular, they must make a careful assessment of the nature of the institutions responsible for the growth and maintenance of the labour force and of its supply to the market—those that produce goods in the system, those that attend to the dis-

tribution of the goods, those that make decisions about the future state of affairs in these regards, etc. A major aspect of this assessment will have to be whether the existing arrangements are to be retained more or less in the same manner, or whether deliberate changes are necessary and possible.

This kind of assessment is not possible except in the context of clarity about goals, related to the ethical question of 'How should one live', and specific measures to spell it out in terms of pursuable objectives. Now, that question can be given many interpretations. Ethicists and philosophers are likely to interpret it in terms of the quality of life, and that, certainly, is a dimension that cannot be ignored. But there is a prior issue which is the very earthy one of the right to life itself, and in many situations that issue has a crucial bearing on the phenomenon of markets. We have seen that the non-tuism or the power to exclude of the market can, and frequently does, result in labour power being rendered redundant. Where that is a possibility and where that can lead to the right to life of many owners of labour power being threatened, an important issue of social policy is whether it is the power of the market to exclude that should prevail or the right of the owners of labour power not to be excluded. In *The Great Transformation*, one of Polanyi's central themes has been that historically the aggressive growth of the 'free' market—i.e. market fully exercising its logic to declare goods scarce and redundant, given the initial endowment of resources—did result in the right to life of many being threatened.³⁷ Given similar circumstances, this can become a contemporary phenomenon as well. A major social decision, therefore, has to be whether society should be based on the principle of self-interest or of sympathy, to use Adam Smith's categories. If it is to be the latter, interventions with the forces of the market cannot be avoided. Polanyi goes on to show that if workers need protection against the operations of the iron laws of the market under certain circumstances, the owners of capital too seek the protection of the State against the forces of the market under certain other circumstances, though the protection that the mighty seek does not get played up as much as the other.³⁸

Within this larger context, policy makers also have to examine the specific functions of the market. In theoretical litera-

ture, especially the tradition that follows Walras, prices that the markets determine on the basis of the preferences of the participants, especially the 'consumers', act as the signals for the efficient allocation of resources. Even if markets cannot be relied upon to ensure equity, they are supposed to guarantee efficiency. But what do markets do in real life? In a few instances, where the quantity to be disposed of is given, prices do get determined in the market through the exercise of the force of demand; but by and large, the quantity to be disposed of is placed in the market with the price already determined by the producer or trader. Markets also play a limited role in determining how basic resources will be utilized, but it is questionable whether they ensure efficiency in any meaningful sense. The primary role of markets in real life, then, is to act as a mechanism for the distribution of goods and services, and the propelling force behind that mechanism is the power to purchase, money power or resource power, which is much more a determinant of the initial endowment of participants than of their preferences. The advantage of leaving the distribution of goods to the market is that it does not call for any bureaucratic procedures. But bureaucratic procedures can also be used for the distribution of goods, as is frequently done. And, although bureaucratic distribution too can be based on principles—first come first served, or some other principle including some criterion of need—it is usually assumed that it quite easily turns out to be arbitrary. However, while the distribution of goods via the market may appear to be fair and orderly, the principle it relies upon, that goods will be available only to those who can afford them, is no less arbitrary. This arbitrariness does not become transparent in many instances because in an environment where purchasing power is the principle of distribution, those who cannot afford something do not even present themselves as aspirants for it, and, in turn, it comes to be established as the convention of decency. The arbitrariness of purchasing power as the principle of distribution becomes palpable when the distribution of something that is generally recognized as a basic necessity comes to be guided by it. In some societies it may be water, in others food; in another one petrol, and so on. If drinking water turns out to be in short supply, no society will smugly say: 'Leave it to the market';

some other principle of distribution will immediately be put into effect. Hardly will any country faced with a food problem, either because of an unexpected crop failure or because of war conditions, permit the distribution of food to be left to the forces of the market. Some societies may not want health care and housing to be distributed solely on the basis of purchasing power.

Such instances are not isolated cases either. The availability of tickets for air or train travel is never decided on the basis of purchasing power alone. One finds oneself frequently wait-listed even when one would be willing to pay a higher than official fare to move from the wait-list to the passenger list. There are also occasions when one voluntarily joins an unrecorded waiting list or an invisible queue, when one is told 'Sorry, we are temporarily out of stock.'

These examples bring out two facts. The first is that even in a so-called market economy, in many situations the market is aided (it can also be interpreted as hindered!) in its functioning by non-market principles and procedures. If so, each society or country must decide on the appropriate mix of these in different situations, taking into account the availability of stock, the possibility of and the time required for increasing output, the assessment of need and the distribution of purchasing power. It can be reasonably assumed that societies differ in such assessment of their internal or 'within' conditions. If so, there is no reason why the internal conditions should be made to fall in line with the 'between' conditions of the market. This is the 'units' problem referred to in the previous lecture, which is almost self-evident as far as international trade is concerned. If 'units' are taken seriously within national economies too, the same problem can figure in internal trade as well. Second, and more important, from a policy point of view what is usually designated as market is not so much exchange and its logic, or even the institutional paraphernalia that surrounds it and supports it, but simply purchasing power. In effect, this is what most advocates of 'free market' also mean when they champion the cause of the market; remove quotas, price regulations and everything else and let purchasing power be the sole factor in making decisions regarding the disposal of goods and the use of resources. Not surprisingly, the 'free trade' doc-

trine has always been and continues to be the argument of those who are sure of their bargaining strength. And not surprisingly too, they usually find some other justification for it—growth, efficiency and non-arbitrariness being the standard ones. Since in a capitalist set up purchasing power vests in its most concentrated form in finance capital, it turns out too that the call for 'free trade', especially in its international context, is virtually an argument in support of the free movement of capital, though it is presented as a case for the free movement of goods.

The market as purchasing power is also what is relied on to gauge the prospects for new investment, that is, to bring out some new goods at a future date. Here it is not 'consumers' preference' that guides production, for consumers cannot prefer something that they do not know about; neither can prices serve as signals. But investors do make assessments of the prospects of selling what they propose to bring out, and certainly the calculations are based on purchasing power.

The unravelling of the market in this manner is not meant to convey an essentially negative judgement about it. Viewed as the facilitator of exchange, the market is a remarkable social mechanism and a visible symbol of human interdependence. In that sense, it has served as a major factor in the development of human civilization. But if it is a human and social institution, it must be put to use, rather than the economy and society being made subservient to its so-called logic and 'laws'. In the realm of the economy its significance lies in the fact, recognized by Adam Smith and Karl Marx, that it facilitates division of labour and thus contributes to an increase in output (not merely subjective 'welfare', as some of the more modern writers have tried to show). And in many parts of the world, including our country, there is much more scope for it than it at present has. But as a social mechanism it functions best—that is, to the advantage of society as a whole—when it is subjected to wider social considerations. One way to ensure it is to see that prices, or the exchange value of goods, conform to their cost of production. Walras brought it out as one of the double conditions for exchange to be what he showed it could be.³⁹ But the real problem is that in generalized exchange under the control of traders this is not likely to happen. A question to be examined

seriously is whether social policy and social institutions can be designed so as to get prices to be in conformity with cost of production. Where that is not possible markets will, almost naturally, come to fall back on purchasing power and prices will reflect subjective scarcity rather than the 'true' economic significance of goods. That being the case, a precondition for the proper functioning of the markets is a fair distribution of purchasing power (but not through assumption alone!). Once this is done, in many areas (though still *not* always or in all areas of economic activity) markets can be left to function without 'external' interventions, and a regime of relatively free markets under overall social supervision is a distinct possibility.⁴⁰ It is in this sense that the decision about the role of markets has to be based not on economic calculations alone, but on the broader considerations of a good life—for all.

NOTES

1. It is precisely for this reason that I have not taken the more familiar example of the blind men's versions of the elephant. We know that the blind men's representations are wrong or at least partial because we have seen the animal and hence know better. At the same time, if there is a blind man who deals with the elephant day by day, he may have a deeper understanding of the animal than those who may claim that they have seen it with 'their own eyes'.
2. The first edition of Leon Walras's *Elements d'Economie Politique Pure* appeared in 1874. The English translation of the title would be 'Elements of Pure Political Economy'. It carried the subtitle, 'Objects and divisions of socio-political economy; Mathematical theories of Exchange, the numeraire and of Money'. The fourth edition which appeared in 1900 was considered by Walras as the definitive edition which still carried the title *Elements d'Economie Politique Pure* and the subtitle 'Theory of Social Wealth'. This shows that the title 'Elements of Pure Economics' given when the book was translated into English for the first time in 1954 by William Jaffe (Homewood, Richard D. Irvin, 1954) was not quite correct because it left out the word 'Political'. By 1954 the Anglo-American tradition had come to be pre-occupied with 'Pure Economics', though Walras never ceased to talk about 'Political Economy' and of *Social Wealth*!
3. 'Existence of an equilibrium for a competitive economy' by Kenneth Arrow and Gerald Debreu in *Econometrica*, July 1954, is the most celebrated exposition of the Walrasian representation. Subsequent treat-

ments have been by T. C. Koopmans, *Three Essays on the State of Economic Science* (New York, McGraw-Hill, 1957); Robert Dorfman, Paul Samuelson and Robert Solow, *Linear Programming and Economic Analysis* (New York, McGraw-Hill, 1958), Chapters 13 and 14; Bent Hansen, *A Survey of General Equilibrium Systems* (New York, McGraw-Hill, 1970), Chapter 3; K. Arrow and J. Hahn, *General Competitive Analysis* (San Francisco, Holden-Day 1971) See also the more recent review article 'Efficient Allocation' by Stanley Reiter, in John Eatwell, Murray Milgate and Peter Newman, eds., *The New Palgrave—Allocation, Information and Markets* (London, Macmillan, 1987) and the references given there. A neglected part of the Arrow-Debreu paper is section 6 where there is a historical account of the efforts by Cassel, Neisser, Zeuthen, Wald and others to make sure that the Walrasian model is not only mathematically sound, but also satisfies socially relevant criteria such as absence of negative prices.

4. Walras, op. cit., p. 71.
5. Ibid., p. 72.
6. Ibid., pp. 40-41.
7. J. A. Schumpeter, *A History of Economic Analysis* (New York, Oxford University Press, 1954), p. 827. According to Schumpeter, 'Walras is in my opinion the greatest of all economists. His system of economic equilibrium uniting, as it does, the quality of "revolutionary" creativeness with the quality of classic synthesis, is the only work by an economist that will stand comparison with the achievement of theoretical physics.'
8. See T. C. Koopmans, op. cit., Lecture One.
9. Walras, op. cit., p. 68.
10. Ibid.
11. Ibid., p. 257.
12. Joan Robinson, *Economic Heresies* (London, Macmillan, 1971), pp. 4-5. The example comes from R. A. Radford, 'The Economic Organisation of a P.O.W. Camp', *Economica*, November 1944.
13. One of the clearest expositions of this is in Dorfman, Samuelson and Solow, op. cit., Ch. 13.
14. The distinction between the logic of exchange and the market as an institution is crucial. This is dealt with in detail in section IV below.
15. Dorfman, Samuelson and Solow, loc. cit.
16. Arrow and Debreu recognized the significance of the *distribution* of initial endowments for equilibrium analysis. Of the two theorems stating the very general conditions under which a competitive equilibrium will exist, the first is that 'every individual has initially some positive quantity of every commodity available for sale'. Subsequently it is spelt out to imply that 'every individual could consume out of his initial stock in some feasible way and still have a positive amount of each commodity available for trading in the market'. This condition is admitted to be unrealistic and is amended to the effect that for equilibrium it is necessary for each individual to possess some asset or be capable of supplying some labour service which commands a positive

- equilibrium price. Koopmans paraphrased these and indicated that the initial endowment conditions postulated by Arrow and Debreu 'would be found best suited for describing a society of self-sufficient farmers who do a little trading on the side'. These show how terribly restricted is the scope of the general equilibrium representation for which many people glibly claim 'universal' applicability. C. T. Kurien, in *A Theoretical Approach to the Indian Economy* (Bombay, Asia Publishing House, 1970), worked out a representation of an economy in which the Arrow-Debreu conditions of initial endowments do not hold and showed that such an economy does not yield some of the 'neat' conclusions of competitive equilibrium.
17. The analyst can treat this as mere iteration. But as Oskar Lange has pointed out, 'the disadvantage of the market as a servo-mechanism is that its iterations cause income effects. Any change in prices causes gains and losses to various groups of people.' Oskar Lange, 'The Computer and the Market', in C. H. Feinstein, ed., *Socialism, Capitalism and Economic Growth* (Cambridge, Cambridge University Press, 1967).
 18. On this an observation by Amartya Sen is very pertinent: 'Under the market mechanism, given the right initial distribution and right prices, people may have the incentive to take the right decisions about production, consumption etc. But they do not have a similar incentive to reveal information about themselves that make decisions regarding the initial distribution of resources possible.' 'The Profit Motive', Ch. 3, in *Resources, Values and Development* (Delhi, Oxford University Press, 1984).
 19. G. Akerlof, 'The market for lemons', *Quarterly Journal of Economics*, August 1970. Also C. Wilson, 'The nature of equilibrium in markets with adverse selection', *Bell Journal of Economics*, Spring 1980. Considerable work has been done in recent years on asymmetric information. See the article by A. Postlewaite, in Eatwell, Milgate and Newman, op. cit.
 20. There is no unanimity even on the logical underpinnings of exchange. Marx would insist that what underlies the exchange of commodities is the amount of labour power expended on them. The marginalists, on the other hand, would say that differences in the preferences of parties is what exchange is based on.
 21. A clear case of mixing up the two is seen in Wicksteed, who says: 'The market is the characteristic phenomenon of economic life and it presents the critical problem of economics. It is the machinery by which objective equilibrium in the marginal significance of exchangeable things is secured in a catallactic society' (Wicksteed, *The Common Sense of Political Economy*, p. 212). The first of these sentences recognizes the importance of markets in economic life and of exchange in economic theory without making that distinction. The second sentence dealing with equilibrium is essentially a theoretical one, but claims that 'it' [exchange or markets?] is part of the machinery in a catallactic society.
 22. Trade is another term used along with exchange and market. It

- usually connotes the activity, but when reference is made to 'free trade', for instance, it makes an implicit reference to the logic of exchange and assumes that all favourable market conditions for equilibrium in exchange are present.
23. Adam Smith, *Wealth of Nations*, Book V, Ch. I.
 24. The reference here is to the 'Coase Theorem' and the literature on transaction costs. For instance, see O. E. Williamson, *Markets and Hierarchies: Analysis and Anti-Trust Implications* (Glencoe, Free Press, 1975) and Robert D. Cooter, 'The Coase Theorem', in Eatwell, Milgate and Newman, op. cit.
 25. K. J. Arrow, *The Limits of Organization* (New York, Norton, 1974), p. 23. Also Geoffrey M. Hodgson, *Economics and Institutions* (Cambridge, Polity Press, 1988), especially Ch. 7.
 26. R. C. Dutt, *The Economic History of India* (Delhi, Publications Division, third Indian reprint, 1976), pp. 17-18, 181-82 etc. Also D. R. Gadgil, *The Industrial Evolution of India in Recent Times* (Delhi, Oxford University Press, fifth edition, 1972); V. I. Pavlov, *Historical Premises for India's Transformation to Capitalism* (Moscow, Nauka Publishing House, 1979).
 27. David Levine points out: 'The distinction between consumption and production, their separation into opposing acts, exists only for the individual unit of production and for the individual unit of consumption taken in isolation. Further, the more separation of consumption is marked the more economic process is individualized and thereby isolated into a direct relation of individual to the given objects of his need. In this case what is essential is the isolation of production from consumption and their independent determination.' David Levine, *Economic Studies: Contribution to the Critique of Economic Theory* (London, Routledge & Kegan Paul, Vol. I, 1977), p. 180. Levine goes on to point out why this isolation is necessary for the centrality of exchange in neo-classical theory.
 28. On this see Henry Bernstein, 'Notes on Capital and Peasantry', in J. Harriss, ed., *Rural Development: Theories of Peasant Economy and Agrarian Change* (London, Hutchinson, 1982).
 29. The problem of interlinked markets, of course, is now well known and may be considered as a major contribution of Indian economists to the discussion of development issues. See A. Bhaduri, 'A Study of Agricultural Backwardness under Semi-Feudalism', in *Economic Journal*, March 1973, which was one of the early papers on the theme; and P. Balakrishnan, 'On the Significance of Inter-linked Factor Markets in Agrarian Economies', in *The Indian Economic Journal*, No. 4, 1984. That the phenomenon has wider application than has been normally considered has been brought out by S. Janakarajan, 'Aspects of Market Inter-Relationships in a Changing Agrarian Economy: A Case Study from Tamil Nadu' (unpublished Ph.D. Thesis, University of Madras, 1986).
 30. The total neglect of the trader in neo-classical theory can be seen from the fact that the 'supply curve' that is considered is invariably the pro-

ducers' supply curve where it can be reasonably assumed that more can be supplied only at a *higher* price. But one knows from day to day experience that traders are usually eager that buyers should take from them as large a quantity as possible and they are seen to be willing to supply larger quantities at *lower* prices.

31. This is why, of course, that a major component of the market as an institution is advertising for which it is difficult to find a rationale in terms of the logic of exchange.
32. Arrow has shown that the choice of the numeraire cannot be done at random because different numeraires can lead to different price regimes. In his 'Real and Nominal Magnitudes in Economics', in Daniel Bell and Irving Kristol, eds., *The Crisis in Economic Theory* (New York, Basic Books, 1981) he says: 'What I want to emphasize here and repeat later in varying contexts is that this price adjustment mechanism is *not* independent of the choice of numeraire. More specifically, the movement of relative prices can be different with different numeraires.'
33. Those who speak about the 'efficiency' of markets seldom care to specify what the term means, especially in empirical situations. If the reference is simply to efficiency *à la* Pareto, it is important to point out, as Amartya Sen does, that 'Pareto optimality captures the efficiency aspects only of utility-based accounting' (*On Ethics and Economics*, p. 33).
34. Daniel Bell, 'Models and Reality in Economic Discourse', in *The Crisis in Economic Theory* as cited in note 32, p. 57.
35. Frank Hahn, 'General Equilibrium Theory', in *The Crisis in Economic Theory*, p. 132. Hahn also says: 'One must agree that the Arrow-Debreu theory will run into logical difficulties in small economies, that is those in which the actions of a single agent can affect equilibrium outcomes. Yet, as formulated, the theory stipulates a finite number of agents and takes these as given. Strictly speaking, then, the received theory is inconsistent. It is also incomplete. For though one can argue that it is reasonable to take the number of households as exogenous, that is not so when it comes to the number of firms' (p. 131). In the section on traders, I have argued that each of them, especially producer-traders, will try to convert (an assumed) large economy into their own small economies where they come to have control over the market.
36. But see note 20.
37. This is the burden of Polanyi's work. See Chapters 7 and 9 and 11 to 18. In the contemporary world too, the sudden eruption of markets falls heavily on those who have nothing other than their labour power and skills to fall back on, which the market forces tend to make redundant while traditional entitlements get eroded. For a very poignant account of how the recent marketization thrust in our country is affecting the lives of the traditional weavers, see *Frontline*, 6 December 1991.
38. Polanyi, op. cit., Ch. 16.
39. Summarizing his arguments on exchange and production Walras

stated: 'Production in a market ruled by free competition is an operation by which services can be combined and converted into products of such a nature and in such quantities as will give the greatest possible satisfaction of wants within the limits of the double condition, that each service and each product have only one price in the market, namely the price at which the quantity supplied equals the quantity demanded, and that the selling price of the products be equal to the cost of services employed in making them.' Walras, op. cit., p. 255.

40. In my *The Economy—An Interpretative Introduction* (forthcoming) I have tried to indicate the institutional set up within which markets can be brought under overall social supervision (see Chapter 6). Not surprisingly, the major conditions relate to the initial endowment of all participants and the organization of trade.

Although markets occupy a central position in economic theory and policy, their treatment in these two spheres is not the same because each has its own universe of discourse. While theory is based on abstraction, i.e. purposive selection of issues for treatment, policy must treat each issue 'as is where is'.

The first lecture deals with market in economic theory, about which there is no unanimity of views. The views on markets of Adam Smith, Karl Marx, John Hicks and Karl Polanyi are examined. The second lecture is devoted to an examination of the market as is where is in real life, as a prelude to assessing its role in policy. Recognizing the plurality of theoretical perceptions about the market, the enquiry is essentially in the form of a symposium of theorists, the four already introduced in the first lecture, and Leon Walras brought in the first part of the second lecture. Marx, Hicks, Polanyi and Smith are used to query the Walrasian system and the Walrasian methodology to move towards an analytical description of markets as they function in real life situations. The argument is that even if there is an underlying 'universal' logic of exchange, market as a social institution is invariably and inevitably contextual. The major criteria for assessing that contextuality are indicated with special reference to the Indian situation.

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